DEPARTMENTS OF TRANSPORTATION, AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR 2017

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF TRANSPORTATION, AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES

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DEPARTMENTS OF TRANSPORTATION, HUD, AND RELATED AGENCIES APPROPRIATIONS FOR 2017

WEDNESDAY, FEBRUARY 24, 2016.

U.S. DEPARTMENT OF TRANSPORTATION

WITNESS

HON. ANTHONY FOXX, SECRETARY OF TRANSPORTATION

Mr. DIAZ-BALART. Let's call the subcommittee to order.

It is great to be with all of you. And Mr. Secretary, it is good to see you again, sir.

Today we welcome Secretary Anthony Foxx. I apologize, by the way, I am a little bit under the weather all of a sudden, so if my voice goes—Secretary Foxx from the Department of Transportation to discuss the general fiscal year 2017 budget request. The DOT is requesting a total of $98 billion in new budgetary resources in fiscal year 2017. Almost 30 percent above 2016. Again, however, it is hard to take much of this budget request seriously. And we will talk about that later on.

Last year we reached a bipartisan agreement setting discretionary budget caps for fiscal years 2016 and 2017. The administration's request, for the Department of Transportation, effectively ignores this agreement, absolutely ignores this agreement, an agreement that was signed by the President. Again, but yet ignored in this proposal.

Mr. Secretary, first the proposal, your proposal, is $17.9 billion in new spending for DOT, called the 21st Century Clean Transportation Program. This proposal includes no details, no legislative language and not much more than, frankly, wishful thinking. The administration proposes to pay for this proposal mostly with new energy taxes. I don't expect that you will see any serious support for new taxes, or frankly, new mandatory spending from this body.

The second is a more, frankly, serious violation to the letter and the spirit of our bipartisan agreement. The proposal is taking $4.3 billion of discretionary programs funded in 2016 and somehow magically shifting those programs to the mandatory side of ledger. Then you propose increasing these programs to $7.4 billion. So the budget also uses rescission gimmicks to hide another $2.4 billion in additional spending. So all told, this budget request exceeds the fiscal year 2017 budget cap, signed by the President, by almost $10 billion, by $9.8 billion.

So unfortunately, this request, and I have the highest admiration for the Secretary, but this request shows a failure of this administration to set priorities, within the caps, that we have all agreed to, of last year's budget deal.

So on this committee, we are going to have to live, and we will, with those caps as we move to complete our work in regular order. And we just can't accept budget gimmicks. So we can't take this seriously, unfortunately, and it does the administration a disservice to submit a budget which is, frankly, so disconnected from reality, Mr. Secretary.

Look, we worked in a bipartisan manner to get the FAST Act done last year. And I know you are hard at work implementing that Act, Mr. Secretary. We need to work just as hard, and, frankly, in the same cooperative manner, to set our transportation priorities for 2017 within the 2-year bipartisan budget agreement.

I look forward working with you, Mr. Secretary, and again I have the highest esteem for you, as we make the hard choices necessary to meet our Nation's infrastructure needs, all while being accountable, accountable to the taxpayer.

Before we get into your opening statement, I want to recognize the ranking member of this subcommittee, the gentleman from North Carolina, Mr. Price, for his opening statement.

Mr. Price it is good to have you here, and good to see you, sir, as always, and you are recognized.

Mr. PRICE. Thank you, Mr. Chairman. It is good to be here. And I am glad to begin this, the first of four hearings on the 2017 budget.

I want to thank you, Mr. Chairman, for the fair and open manner in which you conducted our work last year and I look forward to the same kind of productive and collegial relationship this year.

And of course it is always a pleasure to see my friend and fellow North Carolinian, Secretary of Transportation, Anthony Foxx, who has done an outstanding job over leading this Department. When Secretary Foxx was first appointed, we in North Carolina, knew him as a mayor of a great city with great accomplishments. And in fact with transportation as his signature issue in that role. So we had an inkling that Mayor Foxx was very, very well equipped to do the job he was called to do. And sure enough it has turned out that way and then some.

So Mr. Secretary, it is a pleasure to welcome you here. It has been a pleasure to work with you and we look forward to doing that for the balance of this year. Although this may be your last appearance before this subcommittee. We have mixed feelings about that.

Well, as the chairman has just said, but I will put a little different spin on it, this is an ambitious budget, it is an ambitious budget, I think it needs to be ambitious. It would provide $98 billion in budgetary resources to maintain, modernize, and improve our Nation's transportation system. The budget would make strategic investments and new technologies to make transportation safer and more efficient. We would provide resources for communities to align and coordinate their transportation investments.

The proposed budget takes steps to reduce the backlog of deferred maintenance and to move our transportation infrastructure back toward a state of good repair. I think in looking at this budget request, and squaring it up against reality, we understand just how antiquated our transportation infrastructure has become. The American Society of Civil Engineers gave American infrastructure a D plus recently, estimating that we need to invest $3.6 trillion by 2020, just to bring our infrastructure from poor to good condition. So this budget would take a significant step in this direction, it would dedicate resources to take care of our most pressing needs while providing a path forward for the future.

The request includes nearly $18 billion for the 21st Century Clean Transportation Plan. This is a forward looking, multifaceted proposal that would allow regions to work together to develop smarter and more resilient transportation systems. It would also address emissions, provide for reduced emissions, and it would provide for increased economic efficiency of the transportation system.

Critically the budget also proposes increased funding to bolster our investments in passenger rail and public transit systems, which are absolutely essential to our transportation future. Congress must increase its commitment to Amtrak, to FTA capital investment grants, TIGER grants, similar programs if we are to ensure America's transportation system can face the challenges of today and tomorrow.

Speaking of the future, Mr. Secretary, I am also interested to learn more, or will be interested to hear you talk about your $200 million proposal for research on autonomous vehicles. This emerging technology has tremendous potential to make driving safer and more efficient. I am glad to see the Department is engaged on this topic.

Before closing, I would like to also comment on our overall funding situation this year. In contrast to last year we now have a multiyear surface transportation authorization through 2020. Good, it was only 8 years late, but we have it. As well as a top line budget number, as a result of the bipartisan budget agreement enacted in October. Now we can hope that these two developments will give us some badly needed budgetary certainty as the process moves forward this year despite some rumblings to the contrary from the usual suspects. Make no mistake, having a budget agreement is certainly better than not having a budget agreement. But avoiding sequestration is not enough. Our agreed upon funding levels will I hope let us write appropriations bills, but they make it virtually certain that the bill we put forward will still not sufficiently address the myriad of issues facing our transportation system.

We know that investing in transportation infrastructure keeps us safe, improves our economy, creates jobs, but rather than allowing us to think boldly about the future of transportation, the resources that we have available, even with the budget agreement, will most likely force us only to address the most pressing needs. We are patching potholes when we should be building bridges and laying rails.

While I know the budget request contains revenue to pay for the mandatory proposals, I think we all know it is unlikely that will come to fruition this year. So this leaves us with an unfortunate dilemma, how do we stop the decay of our infrastructure while making strategic investments in the future?

Finally, let me briefly address Chairman Shuster's FAA reauthorization proposal. I have grave concerns, I have expressed those along with many other Members on both side of the aisle. Grave concerns about privatizing our Nation's air traffic control system which would separate FAA's aviation safety and air traffic control components.

The government sponsored corporation model in the chairman's proposal, could reduce transparency and oversight while allowing for fee increases and diminishing access to the national airspace for many aviation stakeholders.

I believe regular and robust oversight of the FAA is necessary to ensure the safety and quality of the air system and ensure the airline passengers, our constituents have a say in the system they are paying for. Our dedicated FAA professionals operate the busiest, most complex and safest air traffic control system in the world. I am committed to reforms that would improve the safety and the efficiency of the system. But we can't sacrifice accountability and transparency.

So Mr. Secretary, it is a very full plate. I look forward to your testimony, to working with you on these important issues and programs.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price. I would like to recognize now the ranking member of the full committee, Ms. Lowey.

Mrs. LOWEY. Well thank you very much, Mr. Chairman. And it is certainly a delight for me to welcome our outstanding Secretary Foxx, before the subcommittee today. I truly want to thank you for your service. You have been so attentive to all the Members of not just this committee, but of this Congress. And we have so much more work to do and I am sorry that there is just a limited time, but you never know, you never know. We look forward to continuing to work together for the remainder of your term. Thank you so very much.

Last fall Republicans and Democrats joined together to pass a bipartisan budget agreement that set the discretionary spending level for fiscal year 2017. Unfortunately, some in the majority are intent on turning their backs on that agreement, further constraining your Department's ability to fully implement the initiatives contained in the recently passed surface transportation bill.

I know that Chairman Rogers is anxious to move the appropriations process forward, through a regular order agreement which I support. Today our Nation faces significant challenges to our transportation infrastructure. And the Department of Transportation's budget is forward thinking, would prioritize investments in our Nation's changing infrastructure needs, improve efficiency and effectiveness of our transportation system, and foster economic growth. The budget builds on the FAST Act, which seems to make critical investments that would enhance our Nation's crumbling infrastructure.

As we work to deliver the funds to rebuild and update American infrastructure, we must be mindful of the critical role that the Department of Transportation plays with regard to safety. For example, the tragic grade crossing crash in my district last year underscores that we must enlist a multifaceted approach, eliminating grade crossings where we can, developing new technologies that will identify obstructions, educating drivers, and ensuring that the

Federal Railroad Administration has a robust inspection staff to identify hazardous crossings.

Finally, I would like to say a word about the efforts to privatize our Nation's air traffic control system. Mr. Secretary, I am sure you are aware that Chairman Rogers, Chairman Diaz-Balart, as well as Ranking Member Mr. Price and I have expressed strong concerns about these privatization efforts, based on our commitment to protecting the public interest, and public investment in this critical asset that is so essential to our economy. Everyday a dedicated and highly skilled controller and technician workforce safely manages thousands of flights and maintains round the clock operation of the world's most complicated air traffic and navigational network.

We value the dedicated men and women who serve as air traffic controllers, technicians, safety inspectors and aviation professionals. They are critical to ensuring the safety of our Nation's aviation system and should not be beholding to a board, controlled by aviation industry stakeholders, who have an undeniable interest in improving their own bottom line.

The quality and scope of the United States air traffic control program are unmatched by any other country. We must continue to make improvements to the technology and operations of the system, but in my judgment it would be a major mistake to undermine the funding model and oversight that makes our air traffic control system the best in the world.

I hope we can work together to ensure that the United States remains the global leader in aviation. Welcome again. I look forward to your testimony.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Ms. Lowey.

Mr. Secretary, your full written testimony will be included in the record. And again it is a pleasure to have you here sir, you are recognized for 5 minutes.

Secretary FOXX. Mr. Chairman, first of all, I want to thank you for your hospitality and for the hospitality of this committee. Ranking Member Price and Ranking Member Lowey, let me also acknowledge you and all members of the committee for the great work you do and for the voices that you lend to the American people to keep the business of government moving. Thank you.

I want to thank all of you today for the opportunity to discuss the President's fiscal year 2017 budget proposal for the U.S. Department of Transportation. Every year since I have been Secretary, I have come to this committee and others and urged Congress to pass a long-term surface transportation bill. Today, thankfully, I have come in part to thank you for passing a bipartisan surface transportation bill last year, the FAST Act, which has done so much to remove the cloud of uncertainty over our surface transportation system that has been there for much of the past decade.

Today, I also ask you to join the Obama Administration as we seek to build on the FAST Act with an even more robust 21st century-focused plan to win the future. For fiscal year 2017, the President's plan includes $98 billion in transportation investments—a significant increase over FAST Act levels to support advancements in safety, repairing and replacing infrastructure, and driving forward innovation and emerging technologies that can help us move faster, more efficiently and safer in the future.

The President's proposal recognizes that neither the current patchwork funding approach nor the rigid and antiquated distribution of transportation dollars through a formula is going to put our Nation's infrastructure in the best position for our kids and grandkids.

As the long, tortured debate about how to put together a long-term surface transportation bill has shown, transportation bills are no longer "lay ups." If we do the hard work now, it will save us stress when the FAST Act expires.

While the FAST Act helps, we are still playing catch up, and the same demographic and economic pressures are still looming. Our survey of future challenges, *Beyond Traffic*, tells us that we will be stuck in even worse traffic tomorrow than we have today. After all, we have 70 million more people we are expecting in this country by 2045, creating even more demand on our transportation system.

Freight volumes are increasing by 45 percent over that same horizon, including 65 percent more trucks on the road, and more of the population is concentrating around what social scientists and other observers call megaregions. These are not just urban centers, these are suburban areas and rural areas that are tied together as communities of economic interest.

In short, our funding and funding distribution models for America's transportation system are rear-view mirrors, and a massive demographic and economic pressures are front windshields. With the FAST Act's passage, Congress should rethink our strategy, and the President's budget offers a pathway for the future.

Specifically, the President's request proposes a new Clean Transportation Plan. This plan not only increases spending on infrastructure, it also looks to spend the money we do spend in infrastructure smarter—pushing it to the local and regional levels where system integration is most needed and where projects can be built even faster. That is why the President recommends a series of innovative new grant programs that advance a 21st century regions approach with an average annual budget of $10 billion over the life of the plan.

Also included is nearly $20 billion for transit to address the needs of fast growing communities and more than $6 billion a year for high-performance passenger rail.

Finally, the Clean Transportation Plan includes funding to help us prepare for the future by providing nearly $4 billion over the next 10 years in research to support the integration of new transportation technologies, such as autonomous vehicles.

The President's fiscal year 2017 budget requests nearly $16 billion for the Federal Aviation Administration, including $1 billion for NextGen investments. This funding will enable the FAA to continue operations at the current funding level while maintaining its focus on aviation safety.

So let me thank you again for the opportunity to appear before this committee as you consider the President's request. I appreciate all of your work and I look forward to your questions.

[The information follows:]

STATEMENT OF

THE HONORABLE ANTHONY FOXX

SECRETARY OF TRANSPORTATION

BEFORE THE

APPROPRIATIONS SUBCOMMITTEE ON

TRANSPORTATION, HOUSING, AND URBAN DEVELOPMENT AND RELATED AGENCIES

UNITED STATES HOUSE OF REPRESENTATIVES

February 24, 2016

Introduction

Chairman Diaz-Balart, Ranking Member Price, and members of the Subcommittee I want to thank you for the opportunity to meet with you today to discuss the President's fiscal year (FY) 2017 budget plan for the Department of Transportation. The President's request totals $98.1 billion in resources that will support the Department's top priority, safety. This plan is focused on the future with high impact investments in the safe integration of emerging technologies, such as autonomous vehicles and unmanned aircraft systems (UAS). It supports improvements that have the potential to transform transportation systems, save lives, and reduce carbon emissions. The President's Budget charts a path towards fundamental changes in the way the government balances and integrates transportation options in planning for the future.

Enhancing Surface Transportation

The surface transportation investments in the President's FY 2017 Budget build on the recently enacted *Fixing America's Surface Transportation (FAST) Act*, which President Obama signed into law on December 4, 2015. The *FAST Act* is an important down-payment for building 21st Century surface transportation systems. It includes a series of important changes, to improve the efficiency of permitting and project delivery, including a number of provisions fostering ladders of opportunity, establishes new freight-focused funding programs, and makes changes to a number of the Department's safety programs. These changes include creating a new grant program and enhancing authority with respect to recalls, civil penalties, and the collection of safety data.

However, the *FAST Act* largely maintains current programs – including the traditional funding and program distribution between highway and transit funding, with limited support for multimodal plans and projects. While the *FAST Act* included authorization for rail programs, rail funding will continue to be determined on an annual basis, without the certainty provided by the multi-year trust fund structure that currently supports highway and some transit programs.

Thus, the FY 2017 Budget builds on the *FAST Act*, taking the next steps to reform funding streams and encourage better planning and projects at the State and regional levels through increased investment in areas such as rail and transit. It also includes a series of new, multimodal programs that increasingly cut across traditional siloes, in support of more comprehensive regional strategies that connect communities and support climate and greenhouse gas reduction goals.

To address these concerns, the President's request directs investments over a 10–year period towards a 21st Century Clean Transportation plan that reflect America's changing demographics and economy, while at the same time providing access to opportunity.

- As more Americans move to cities, regions, and megaregions, it is time for us to reassess how we plan for and use our limited transportation dollars.
- At the same time, this Clean Transportation Plan recognizes the impact today's transportation systems have on climate change and the environment and seeks to build incentives that will encourage new, cleaner forms of transportation and better land use planning.
- This plan also acknowledges the important role that innovation and technology play in keeping transportation safe, reliable, and efficient by requesting funds for programs such as a new autonomous vehicle deployment pilot that will yield important benefits.

Overall, the President's Budget request represents a combination of these proposed 21st Century Plan investments and funding for the Department's traditional transportation programs. Key elements of the request include the following:

Investing in Clean, 21st Century Surface Transportation Options that Reflect America's Changing Demographics and Provide Access to Opportunity

Enhances clean transportation options for American families: Over the next decade, the Budget invests an average of nearly $20 billion per year in new investments to reduce greenhouse gas emissions and provide new ways for families to get to work, to school, and to the store. The Budget would expand transit systems in cities, fast-growing suburbs, and rural areas; make high-speed rail a viable alternative to flying in major regional corridors; modernize our freight system; and expand the successful Transportation Investment Generating Economic Recovery (TIGER) program to support high-impact, innovative local projects.

Supports investment decisions towards a "21st Century Regions" approach that reflects a changing demographics and economy: Currently, the majority of Federal transportation funding flows, via formula, through the State. To address the shifting demographics in America, this Budget balances that funding stream, by directing billions of dollars through regional governments, such as Metropolitan Planning Organizations, empowering them to play a stronger role in decision-making. Over a 10-year period, the Budget invests an average of $10 billion a year towards a series of new, innovative multimodal programs that improve the balance of funding and decision-making and will accelerate the move towards smarter, cleaner, and more integrated communities. The funding would flow across transportation modes to support transit-oriented development; reconnect downtowns divided by freeways; and, bicycle and pedestrian networks.

The President's Budget fully supports FAST-authorized funding levels for surface transportation programs, aimed at keeping the system safe and in a state of good repair. In addition to the proposed increases for surface programs, the Budget fully funds *FAST Act* levels for FY 2017, across transportation modes which include: $44 billion to invest in the Nation's critical highway and bridge systems; nearly $10 billion to support operations of public transit systems across the Nation; roughly $730 million for the National Highway Traffic Safety Administration (NHTSA) to research and develop new, life-saving technologies and programs; and over $640 million to support nationwide motor carrier safety through the Federal Motor Carrier Safety Administration (FMCSA).

Advances Public and Private Sector Collaboration to Accelerate Cost-Competitive, Low-Carbon Technologies and Intelligent Transportation Systems

Continues the transition to the Next Generation Air Transportation System (NextGen): The Budget requests a total of $1 billion to support NextGen. This includes $877 million for NextGen Capital investments, an increase of $22 million above FY 2016, which will advance modernization efforts; enhance automation; implement satellite-based surveillance capabilities; improve data communication practices and technology; and maximize traffic flow.

Funds pilot deployments of safe and climate-smart autonomous vehicles to create better, faster, cleaner urban and corridor transportation networks: To accelerate the development and adoption of autonomous vehicles, the Budget includes $3.9 billion over 10-years for large-scale deployment pilots to develop a common multistate interoperability framework for connected and autonomous vehicles.

Ensures Transportation Safety Keeps Pace with Changing Technology and Organizational Needs

Integrates surface transportation technologies safely into the transportation system: High impact investments will support activities such as NHTSA's New Car Assessment Program (NCAP), to test vehicle safety through state-of-the-art equipment and more realistic crash dummies. The Budget invests $35 million in FY 2017 for this integration.

Strengthens regulatory enforcement agencies across the Department through resources and organizational changes: Across the Department, agencies are taking action to strengthen the regulatory and enforcement capabilities that are key to protecting the safety of travelers and movement of goods.

- Investments would provide over $47 million for NHTSA's Office of Defects Investigation to improve its effectiveness in identifying safety defects quickly, ensuring remedies are implemented promptly, and notifying the public of critical defects.

- The Budget's $295 million request for the Pipeline and Hazardous Materials Safety Administration (PHMSA) also includes proposed organizational changes to elevate the role of research and analysis in support of regulatory development and enforcement.

Supports rail safety through research and development and implementation of positive train control (PTC): The Budget includes $213 million to support the Federal Railroad Administration's (FRA's) rail safety and development programs, including implementation and enforcement of PTC, as well as related track and bridge safety activities, and another $53 million for additional safety research. This includes $12.5 million to analyze and demonstrate the safety and environmental benefits of Electronically Controlled Pneumatic brakes.

Protects our maritime interests: The Budget provides over $428 million for the Maritime Administration to implement programs that promote the economic competitiveness, efficiency, and productivity of U.S. Maritime transportation.

Invests in 21st Century Government and Project Delivery

Modernizes permitting and project delivery: The Budget supports investments, consistent with new requirements in the *FAST* Act, that ensure we are making 21st Century investments through 21st Century delivery mechanisms. The Budget expands the Administration's progress to expedite permitting and approval processes while protecting safety and the environment.

Supports ongoing establishment of a National Surface Transportation and Innovative Finance Bureau: Building on the Administration's successful Build America Investment Initiative, the FAST Act created a new office to streamline and improve the application processes for credit programs, expedite project delivery, and promote innovative financing best practices. The Budget requests resources for implementation, as well as $275 million for the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program, along with flexibility to also use resources from a range of new multi-modal programs to cover credit subsidy costs.

Protects cybersecurity and data integrity: The Budget includes $15 million to continue improvements to the Department's cybersecurity protections, and another $4 million to assist the Department in meeting the requirements of the Digital Accountability and Transparency Act of 2014.

When taken together all of these new initiatives support our expanding freight network, and address the ongoing need for improvements in the transportation options that support ladders of opportunity for all Americans.

Preparing for Reauthorization of the FAA

Planning for the future of the FAA: The President's FY 2017 Budget request includes a total of $15.9 billion to support the ongoing work of the Federal Aviation Administration (FAA). This funding level would provide the FAA with "steady-state" funding overall when compared with FY 2016 levels. The FAA's authorization is set to expire on March 31, 2016. As new legislative proposals are offered and considered, the President's budget continues to propose expanded funding flexibilities that would help FAA manage its resources in a more efficient and effective way.

Thank you again, for the opportunity to appear before you today and I will be happy to answer your questions.

Anthony Foxx - Secretary of Transportation

Anthony Foxx became the 17th United States Secretary of Transportation on July 2, 2013.

At the U.S. Department of Transportation, Secretary Foxx leads an agency with more than 55,000 employees and a budget exceeding $70 billion. DOT oversees air, maritime, and surface transportation, and the Secretary's primary goal is to ensure that America maintains the safest, most efficient transportation system in the world for this and future generations.

In 2015, Secretary Foxx refocused the national dialogue about the future needs of our transportation infrastructure by releasing *Beyond Traffic*, a report examining the challenges facing America's infrastructure over the next three decades. This draft framework has already influenced decisions by elected officials, planners, and stakeholders nationwide. *Beyond Traffic* also highlights the importance of giving local governments reliable, long-term funding to plan critical investments in transportation infrastructure. Secretary Foxx championed this goal during hundreds of Congressional meetings, two bus tours, and visits to 43 states before securing a 5-year, bipartisan surface reauthorization bill from Congress in December 2015.

Secretary Foxx has also energized DOT's embrace of innovation to help solve these challenges. In December 2015, the Secretary launched the Smart City Challenge, a national competition to implement bold, data-driven ideas that make transportation safer, easier, and more reliable in that city. The Secretary has also worked to accelerate the Department's efforts to incorporate vehicle-to-vehicle (V2V) communication technology into new vehicles.

Secretary Foxx believes that transportation should not only bring people from one place to another, but should also create opportunities for the places and people in between. He has leveraged the resources of the Department to connect communities to economic opportunity while encouraging land use planners, engineers, and decision-makers to revitalize and reconnect underserved communities. Foxx has hired a Chief Opportunities Officer; launched LadderSTEP, a pilot program in seven cities that provides technical assistance and attracts resources to game-changing community transportation projects; and pressed for Local Hiring Requirements in infrastructure projects to create pathways to jobs.

Secretary Foxx continues to ensure that safety remains the Department's top priority. He has challenged leaders to raise the bar for bicyclist and pedestrian safety through the Mayors'

Challenge for Safer People and Safer Streets. Other safety gains include a final rule for the safe transportation of flammable liquids by rail, registration for Unmanned Aircraft Systems (UAS) to ensure accountability, and changes to the New Car Assessment Program to further protect American drivers.

Foxx joined the U.S. Department of Transportation after serving as mayor of Charlotte, North Carolina, from 2009 to 2013. As mayor, he made efficient and innovative transportation investments the centerpiece of Charlotte's job creation and economic recovery efforts. These investments included extending the LYNX light rail system, the largest capital project ever undertaken by the city; expanding Charlotte-Douglas International Airport, the sixth busiest in the world; working with North Carolina Governor Beverly Perdue to accelerate the I-485 outer belt loop using a creative design-build-finance approach; and starting the Charlotte Streetcar project.

Prior to being elected mayor, Foxx served two terms on the Charlotte City Council as an At-Large Representative. As a Council Member, Foxx chaired the Transportation Committee, where he helped shepherd the largest transportation bond package in the city's history. He also chaired the Mecklenburg-Union Metropolitan Planning Organization.

Foxx is an attorney and has spent much of his career in private practice. He also worked as a law clerk for the U.S. Sixth Circuit Court of Appeals, a trial attorney for the Civil Rights Division of the U.S. Department of Justice, and staff counsel to the U.S. House of Representatives Committee on the Judiciary.

Foxx received a law degree from New York University's School of Law as a Root-Tilden Scholar. He earned a bachelor's degree in History from Davidson College.

Foxx and his wife, Samara, have two children, Hillary and Zachary.

Updated: Tuesday, January 26, 2016
- See more at: https://www.transportation.gov/secretary#sthash.rWXpulhY.dpuf

Mr. DIAZ-BALART. Thank you very much, Mr. Secretary. We will now proceed to the standard 5-minute rounds, alternating sides and as always, recognizing members in the order of seniority as they were seated at the beginning of the hearing. And again as always, be mindful of your time because that 5 minutes includes the question and the Secretary's time to answer.

So with that Mr. Secretary, I already mentioned in my opening statement about your budget request including two pretty big gimmicks totaling $25 billion. And I think we can agree that the $17.9 million you have requested in infrastructure again is a nonstarter. I don't see an appetite, as I said before, for a huge energy tax.

But let me talk about something that has me a little bit more concerned. And I almost feel guilty bringing this up to you because I know you have to present the rosiest face that you can on this proposal. And I have the highest respect and admiration for you, and look forward to working with you, by the way, in a very detailed manner. I really do.

But the greatest concern is a shift of $4.3 billion, which was funded in 2016 discretionary programs, to the mandatory side. And then increasing those programs to $7.4 billion. Major programs like TIGER, Amtrak, FTA and vehicle safety, all of those would now be off the books. Now that is especially obnoxious this year given the fact that, as we all know, we are working under a 2-year bipartisan agreement that sets the timeline, that was again agreed to by all of us and including the President, signed by the President. We are going to have it to work with, and we are committed to working with the limits of the budget agreement.

So really two first questions, Mr. Secretary. Are there any substantive reasons to shift these programs to the mandatory side, other than creating more room elsewhere in the budget for more spending? And if so what are those?

And then, if you had to fund these programs that are now in your proposal shifting to mandatory, within the discretionary budget authority, as we are going to have to do, would you imagine that there would be potentially different funding levels for these programs? Because as the budget reads now, you know, we don't really know what the priorities are because you have all this additional money. Would you still be requesting $1.25 billion for TIGER, for example, if you had to cut from other programs to fund it, which is what we would have to do? And if so, for example, where would you get it from the existing money? And again, throwing those two questions at you and thank you for being here.

Secretary FOXX. No, thank you, Mr. Chairman. And let me start by setting the context a little bit. I think over the last several years we have gotten used to being cut down to the marrow in terms of our transportation system. I am not talking about the Department specifically—I am talking about the system overall, the bridges, the roads, et cetera. We are still underinvesting even at FAST Act levels. And our budget recognizes a need to build on investment levels going forward.

I would say, with a bit of humility, to the credit of the administration, we didn't come to this discussion without bringing in some ideas about how to pay for the increases we are recommending.

And that is where the oil fee and the business tax reform continue to be part of our discussion.

And then what I would say, on the specific question of the shift from discretionary to mandatory, is that our theory of action there is a user based theory, which is that if states and local governments and communities have the certainty that programs are going to be around for several years, they can actually plan better than if they are going from year to year.

For example, the TIGER program is one where we don't know and they don't know from year to year whether that program is going to be there. And if it is, at what levels? And so the more predictability, the better for those programs.

I hope I have answered your questions.

Mr. DIAZ-BALART. Yes, Mr. Secretary, on that point. Now, the issue, for example, though, if we are dealing with a limited cap, which is what we have, which is what we deal with, would you still, for example, ask for those increases at those levels when you have to then take it out of someplace else, as opposed to just put it in this theoretically new pot of money?

And so I look forward to working with you on those specifics, but you understand that is ultimately—come on, that is what we are going to have to do. Because that is what the President agreed to with those numbers, we all agreed to those numbers. Would you be asking for those huge increases for TIGER and others? And I am not telling you that those are programs that are meritorious, if we have to—which we will, stick to those caps, where would we take that money from? If we are not going to raise taxes and put it into mandatory, where would we take that money from?

I am running out of time and would like to lead by example. I do look forward to working with you, again on the detailed issues, because we are going to have to do this in a realistic fashion. And so again, but I want to lead by example in keeping my time short.

Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, let me turn, not surprisingly, to the FAA and the authorization proposal that has recently been put on the table. You know very well our air traffic control system is the largest and most complex in the world. The last several years we have invested billions already into the NextGen program, FAA's NextGen program, to transition from ground based to satellite based navigation system.

The proponents of air traffic control privatization have argued that the implementation of FAA's NextGen program has moved too slowly. And they do have a point about that, but what is the remedy then is the next question and that is where we have a serious issue.

So I would like you to evaluate the progress to this point and also evaluate going forward what kind of structure we need to bring NextGen forward and to get to this satellite based navigation system.

First of all, as you look back on your tenure, what specific progress would you point to that the FAA has made in modernizing the air traffic control system, NextGen or otherwise? In other words, what efforts have been particularly successful?

And then secondly, how do we maintain momentum on these or accelerate the momentum? If we had a dramatic restructuring of our air traffic control system, would that risk sacrificing these gains, losing that momentum?

Secretary FOXX. Mr. Ranking Member, thank for the question. Let me try to give you as compact an answer as I can.

First of all, I think we must recognize, with all due respect to this committee and the efforts that are undertaken to keep the business of our Department and other agencies moving from year to year, that we have had a state of interruptions and disruptions to the running of our business—including 23 extensions, sequestration, and shutdowns—all of which, in various ways, have impacted the workings of our Federal Aviation Administration and our air traffic control system specifically.

And I think that is part of the reason why this conversation is even happening, quite frankly. Having said that, our role in this discussion is going to be to call the balls and strikes exactly as we see them. And so I have promised to submit our concerns and issues with the bill that has been proposed. That work is under way and I look forward to that coming forward in a matter of days, not weeks.

But on your question about NextGen specifically, as it relates to this, NextGen was rebaselined under this administration. And if our FAA administrator were here, I am sure he would tell you that based on the new schedules that have been adopted early in the administration, we are actually meeting the marks. And so we have operations out in the field now that are happening.

Performance-based navigation types of approaches to airports that are happening in places like Dallas. Data Comm is technology that we are steadily rolling out across the country. ERAM was put out over the last year. And so I feel like we are making progress and getting the foundational elements of NextGen put together.

I would also say that this is an area where I think Congress has basically created a different structure for FAA in terms of managing the human resources and procurement, for the FAA, differently than we have for other agencies. And I think that one of the things that potentially could help us going forward is to have reconsideration of some of the autonomies that the FAA was given back in 1995 to help add some redundancy to the management structure.

Mr. PRICE. Thank you. I would of course be receptive to those reflections. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price.

We are privileged and honored to be joined by the chairman of the full committee, Mr. Rogers. Chairman Rogers, you are recognized. Thank you, sir.

Mr. ROGERS. Thank you, Mr. Chairman. I appreciate that, thanks for the courtesy. I apologize for being late. We have 21 hearings this week. We have four secretaries today, four tomorrow, plus other people. So I apologize for coming and going.

Mr. Secretary, thank you for your time here today especially. No doubt you have been busy since the passage of the FAST Act last year. That multiyear authorization bill was sorely needed to help your agency—as well as your partners at the State and local levels—to implement long term transportation planning that is so critical to the Nation's economic health. I appreciate you being here with us to answer questions on your request.

As you know, last year Congress reached an agreement with the White House, setting discretionary budget caps for fiscal years 2016 and 2017. It was a bipartisan agreement, which the President signed. It is disappointing, but not surprising, that President Obama's last budget request essentially tears that agreement to shreds—circumventing the statuary cap on spending with billions of dollars proposed on the mandatory side of the ledger. Perhaps nowhere is that more apparent than in the request for the Department of Transportation.

Overall, you have requested $98 billion in total resources for the year, compared to fiscal year 2016's enacted level of $76 billion, from $76 billion to $98 billion. There is nobody in this room who questions the importance of transportation funding to our Nation's economy, but this request constitutes nearly a 30 percent increase in just 1 year.

More importantly, the request shifts $4.3 billion from discretionary accounts to mandatory funding in order to avoid the agreed upon budget caps. These are critical programs like TIGER grants, rail, transit. We both know that these figures and budget gimmicks are unrealistic, it only serves to make the job of this committee more difficult, and eventually you and your Department.

To the contrary the committee has worked hard to responsibly reduce discretionary spending and make our government work more efficiently. We have been fairly successful. Over the last 5 years we have cut $126 billion off of discretionary spending.

So people say, yay, that is great you are cutting the deficit. The problem is the mandatory side, which is zooming like a rocket. Now mandatories take up almost three-fourths of all Federal spending. We only appropriated 30 percent of Federal spending, including the discretionary part of your budget. Mandatory spending, largely outside the purview of this committee, or any other committee for that matter, now accounts for some two-thirds of Federal spending, and the administration refuses to acknowledge or much less tackle that problem.

I was also disappointed to see an outgrowth of new programs proposed in your request. Not only have you prioritized $17.9 billion for a new clean transportation program, but the budget includes no legislative language and few details related to that program. There are also a number of new programs in the Office of the Secretary, which I believe are irresponsible when critical infrastructure is crumbling around the country. Now is not the time to focus on pet projects or feathering a nest.

Mr. Secretary, your Department oversees critical transportation infrastructure, obviously. Highways, airways, waterways, railways, all of which play an important role in the American economy. So we look forward to hearing from you today and I appreciate you being here.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman, for being here, particularly with your pretty crazy schedule today.

We will proceed now with Mr. Young. You are recognized sir, for 5 minutes.

Mr. YOUNG. Thank you, Mr. Chairman. Mr. Secretary, I want to thank you for your staff's commitment to agriculture transportation in getting goods to market not just nationally but internationally. We had a nice roundtable and Larry Neal was there from FMCSA so thank you for that. We had that roundtable last week in Des Moines.

One issue that was brought up during that roundtable is the United Nations maritime organization's requirement of shippers to verify the weight of cargo containers before being loaded on vessels. Are you familiar with this issue?

Secretary FOXX. Yes.

Mr. YOUNG. There are a lot of concerns folks have in Iowa regarding that, and around the country, from the commodity groups, to rail and truckers. Concerns are that major delays may hurt competitiveness. Can the U.S. not abide by this requirement and what would it take? Because I understand there is a date of, I believe it is July, for us to become compliant, is that your understanding?

Secretary FOXX. I would have to come back with more information for the exact date, but I think in general we are very interested in working with the State of Iowa and other communities to assure that our port infrastructure and inland waterways are working very well for commerce because we are going to need them going forward.

Mr. YOUNG. Well thank you for that. But specifically regarding the United Nations, International Maritime Organization's requirement, that we are under right now, does the U.S. have options to delay this regulation?

Secretary FOXX. This actually is a matter that falls under the Coast Guard.

Mr. YOUNG. Okay and where is the Coast Guard on this?

Secretary FOXX. The Federal Maritime Commission, that is under the Department of Homeland Security. But I will be happy to pass it along and get a direct response to your question, sir.

Mr. YOUNG. It is your understanding the Department of Transportation may not have any involvement in this issue whatsoever, and we should direct our attention to Secretary Johnson?

Secretary FOXX. That is what I believe, yes, sir.

Mr. YOUNG. Okay. Thank you. We may follow up on that.

The projected shortfall of commercial drivers in the next 10 years is about 240,000 to 300,000. In Iowa, the average age of a commercial truck driver is 58 years old. This means we need some more drivers, new commercial drivers.

However, regulations under the FMCSA related to residency requirements for obtaining a commercial learner's permit represents a major obstacle for training, licensing and hiring new drivers. Given the shortfalls of commercial drivers our Nation is facing, what is the Department of Transportation doing to review the effectiveness of the current regulations out there and is DOT easing some of the residency requirements, and ability for folks to get those permits in an easier way so we can get people to work?

Secretary FOXX. So two things on this. I know that our FMCSA team is working with Iowa officials to provide technical assistance on ways to strengthen and make the State regulations more responsive to this issue. In addition to that, we are working through FMCSA to create opportunities for veterans who have been driving heavy-duty trucks, and many times overseas in other combat situations, et cetera, to give them equivalence as they try to get registered to drive commercial trucks in the U.S. I know that for military members looking to do this, it historically has been onerous from a paperwork perspective.

And we are working to simplify the process, and we are working especially on a rule that would extend the time period for applying for a skills waiver from 90 days to 1 year for recently separated military personnel. And we are also looking to allow Active-Duty personnel to apply and test for CDLs in the States where they are stationed. So we are trying to open the aperture there while working specifically on the issues that we know Iowa has.

Mr. YOUNG. I appreciate that, but I think if you really look at the residency requirements, if we could have a continued dialogue on that, we can get a lot more folks to work.

One last thing, the President's budget provides for investments in new technologies in the 21st Century Clean Transportation Plan. Specifically $10.5 billion is being requested to improve these transit systems, including $3.6 billion to expand the development, access and use of public transit. Now we have many urban areas that have some great innovative ideas, new technology, and they are being very progressive with their urban transportation plans. But when it takes about an average of 3 years for rules and regulations to catch up with some of these, it seems like innovations and technology are far outpacing the finalization of rules and regulations.

So urban areas such as Des Moines, they feel like their hands are tied and they want to move ahead with progressive development plans, but it seems the Department of Transportation rules and regulations are a hindrance. How can you work better with these urban areas so we can really have a 21st century transit plan with maybe not having to spend $10.5 billion with the ideas right there on the ground already?

Mr. DIAZ-BALART. And Mr. Secretary, I am going to ask you to be brief on that question.

Secretary FOXX. I would love to give a longer answer, but I will try to be brief. The demand for transit is going to be much more significant in the future than it is even today and so the budget reflects that reality. If there are places where you are getting gummed up by our agency, I would ask you to just reach out to me directly and I will try to clear the way as best I can.

Mr. YOUNG. I would be glad to have a further conversation with you and the folks in Des Moines regarding this.

Mr. Chairman, I apologize for going over.

Mr. DIAZ-BALART. It is all right—good questions. Let me now recognize the ranking member of the full committee, Mrs. Lowey.

Mrs. LOWEY. Thank you, Mr. Chairman. Mr. Secretary, I introduced legislation supporting further development of the Driver Alcohol Detection System for Safety, called DADSS, which will produce technology to identify drunk drivers, prevent them from getting on the road. And last June I joined hundreds of drunk driving victims and supporters, as well as members of your leadership team, at DOT headquarters, to celebrate advancements in the program.

At the ceremony, your Deputy Secretary Victor Mendez was very enthusiastic and said we need to do it faster. NHTSA Administrator Rosekind has also demonstrated strong support for DADSS advancements. Will you provide us with an update of this vitally important program which has the promise of saving thousands of lives annually in light of the action by Congress and the FAST Act to continue through fiscal year 2020?

And I am particularly interested in knowing a plan to accelerate the development of this technology, including the possibility of applying more resources from the Department and from NHTSA's partner in these efforts such as leading auto manufacturers. Can you tell us what is happening with the program?

Secretary FOXX. Well, first of all, thank you so much for your leadership in pushing this. This technology we believe will be game changing in reducing drunk driving risks to the public. We plan to continue working to accelerate the research on this to make it usable. And in fact, in fiscal year 2017, NHTSA plans to focus on the critical components of the breath-based and touch-based sensors that are necessary to implement this technology so that they are ready for in-vehicle use. And we also hope to initiate a pilot field operational trial for both sensors in the fiscal year 2017 year. We feel like this technology is very close to being ready for prime time, and we want to put the last finishing touches on our research and ensure that that is the case.

Mrs. LOWEY. Thank you. Actually, I actually sat in one of those cars, and it is very exciting and I appreciate your work. I guess I have time for another one, a crude one. Every day, upwards of 80 rail tank cars carry highly volatile Bakken crude oil, through Rockland County, New York, endangering homes, skills businesses near the tracks. While progress is being made on the safe transport of crude oil, we need to act fast to guarantee the security of Americans who live near America's extensive railways. And with the increased movement of domestically produced energy products we must make every effort to ensure that these shipments are done safely, whether they are transported by rail, truck, barge or pipeline.

And specifically we also need to look at reducing the volatility of crude shipment, route, speed, and emergency response and training. Your budget requested $1.6 million for a study to conduct expanded research, including work with the Department of Energy on test methods for crude oil.

Number one, if you could share some information with us in the time remaining, when do you think it will be complete? How does this fit into your Department's commitment to the safe transport of crude oil and other energy products?

So if you can just respond briefly and submit the rest to me I would be most appreciative. Thank you.

Secretary FOXX. Well, fundamentally this issue is one that I have been dealing with since my first 2 weeks on the job following the Lac-Megantic accident in Canada. And you know of course that we worked very hard to put a rule forward that will improve the safety of the transport of this material by rail.

But to your point, we also know there is a lot more we need to know about the material itself. And that is why we have joined with the Department of Energy. The testing has several phases to it, and so the early phases are actually under way and we are hoping to get through the entire run of the studies over the next year or two, but that is going to take a lot of work by a lot of people at the Department of Energy and the resources we are asking for are going to help us keep those studies going forward.

Mrs. LOWEY. Well I look forward to working with the chairman and my colleague because I know how important this is to so many members. Thank you so much.

Secretary FOXX. Thank you.

Mr. DIAZ-BALART. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here.

Secretary FOXX. Sure.

Mr. JENKINS. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. As you are aware, I have the honor of representing a very rural district, in fact U.S. Census has designated 98 percent as being rural. One of the things that we did in the FAST Act was give some flexibility. I have got 950 bridges that are structurally deficient, functionally obsolete, I have got road projects that have been started, that have stalled or not even gotten started.

One of the things, working with the full committee chair and the subcommittee chair, was putting in some new flexibility, for the DOT, to help States address rural bridges, things not on the highway official corridor and use some of this funding. Can you describe for me briefly what the DOT is doing to implement some of this new flexibility to the States for rural bridges, to streamline the environmental permitting process so some of these projects aren't stalled and held up? We think this is an opportunity and I want to make sure that they are being fully implemented aggressively from DOT.

Secretary FOXX. Well, thank you very much for the question. We are doing a lot to get the FAST Act stood up, including developing guidance for the formula side of the national freight and highway program that Congress allowed for in the FAST Act. This is going to be formula money the States will receive, and part of what the States can use it for is addressing those bridges and repairs that need to be done.

Secondly, there is a discretionary part of the freight program which we are hopeful to get a NOFA out in a matter of days, to provide opportunities for States to apply for additional dollars to deal not only with maintenance but even system expansion as necessary. For freight and for highways.

In addition to that, on your question about streamlining, Congress has given us additional tools to try to shrink the time it takes to get projects moving forward. This is an area where, as a former mayor, I am exactly in sync with what you are talking about in terms of getting projects done quickly.

It is my hope that over the next year, not only do we use those tools and develop guidance for the use of them, but we actually have something to show for it in terms of projects moving faster, so we are very much focused on that.

Mr. JENKINS. Thank you.

Secondly, and like you talking about your mayoral days, me in my State legislative days was big on fiscal responsibility, and government spending, watchdog and being a hawk. MAP–21 was passed in July of 2012 and instructed DOT to annually report in the user friendly format, on the DOT Web site, information on all projects. In March of 2014 the highway administrator said that would be up and running by late spring 2014. We are sitting here in 2016, now a long time since 2012 and we still don't have transparency, and candidly, accountability to the American people for the expenditures being made that this Congress directed be made available 6 years ago.

Can you give me an update on where your office and the DOT is on the transparency and the reporting responsibility that have been around for 6 years?

Secretary FOXX. If you would allow me to submit for the record I would like to get you a very specific answer to that question. I think accountability and transparency is very important. We have done some of that with our dashboard, but that has been for large-scale projects. I want to make sure that we are delivering on the promises that were made, and I will make sure to follow up with that.

[The information follows:]

Section 1503(c) of MAP–21 required the Federal Highway Administration (FHWA) to post on it website, in a user-friendly, searchable manner, a report on the obligations and expenditures of Federal-aid projects by state. FHWA has posted the relevant project listings for FY 2013 and FY 2014 online at: http://www.fhwa.dot.gov/cfo/1503creport.cfm.

FHWA has also compiled the FY 2015 project listing and it is undergoing review. They will be posting it on their website in the coming weeks.

In addition, the Federal Transit Administration (FTA) is actively working to ensure that the data will be made available in a timely manner. While FTA has not published any data on the website for FY 2013, FY 2014, or FY 2015 yet, they expect that the data will be ready to post on the DOT website within the next couple weeks.

Mr. JENKINS. And I appreciate it. And again, we got the promise 2 years ago that in a matter of months and it has not been delivered on. It is $50 billion of expenditures. The American people deserve to know how it is being spent. And I am going to be a pit bull in trying to make sure that we provide that transparency to the American people.

My last question is, one of the things that the FAST Act did was reauthorize Appalachian Regional Commission, for the next 5 years. We also with the chairman's strong support, Chairman Rogers, thank you and our subcommittee chair, one of the things is to allow some new collaboration with ARC and to have some flexibility for the national highway freight programs and other things.

Can you tell me what you are doing with this new reauthorization and flexibility of collaboration with the ARC?

Secretary FOXX. Well again, a lot of our programmatic work is based on what the region needs from DOT. And as the ARC starts to develop its next stage agenda and its next stage set of projects that it wants to complete. You know we will be a strong partner with them and help find resources they need to try to move things forward. I would also point out that there are a lot of resources that have been in the ARC for quite some time that we would love to find a way to unlock and help get things going in Appalachia.

Mr. JENKINS. Thank you, Mr. Chairman, I yield back.

Mr. DIAZ-BALART. Thank you. And Mr. Jenkins, I look forward to working with you as well to make sure we get those answers to you. Mr. Quigley.

Mr. QUIGLEY. Thank you, Mr. Chairman. Thank you, Mr. Secretary. On behalf of the Chicago Transit Authority, thank you. It was a very good year; $156 million DOT recently set aside for the red and purple line modernization. And additional resources set aside for the CTA's efforts. Just the same factor I use every year, more people ride the CTA than Amtrak, Chicago's light rail, in a month, than ride Amtrak in a year, and I like Amtrak.

Getting to another point, the jobs created by transportation, Chicago passed an ordinance that dealt with local hiring programs. I know you have a pilot program that lets cities add local hiring provisions in the contracts for Federal transit programs. Any plans on making that permanent and expanding it?

Secretary FOXX. Well, we have had a great run of success with the local hire program. We have extended it out this year and I think to the extent that we have the authority to make that program permanent, we would be very interested in doing so. It has been very successful and I see evidence of that every place I go that has actually bought into the program.

Mr. QUIGLEY. We appreciate that and we will look forward to working with you as we go forward.

Congress has been very clear on another point. We want to see stronger enforcement by the DOT Open Skies agreement, to ensure U.S. carriers and U.S. workers are not at a competitive disadvantage. Can you give us an update on what your agency is doing in this vein?

Secretary FOXX. Well, I think we are very supportive of our Open Skies agreements and they have been very successful over many years. We have more than 110 of them out across the world today that we rely on to provide service. And I am aware of a couple of situations in the world right now where some of our domestic stakeholders are concerned about the Open Skies agreements and whether they are being followed to the letter.

Any concerns that are raised along those lines are ones that we take seriously. We will do everything we can to get to the bottom of those allegations and that work is under way. But beyond that, I cannot comment.

Mr. QUIGLEY. Okay. Finally, the FAST Act also gave the National Infrastructure and Tourism Infrastructure Advisory Board the opportunity to be authorized. A great opportunity for transportation tourism institute is to help DOT identify the barriers to passenger mobility and develop a national strategy to improve travel in the U.S. What are your plans to help this board get established, and your plans for the board once it is in place?

Secretary FOXX. Well, you know, this is an incredible opportunity and frankly I would have to say that we would be not doing a service to this, not to compare notes with colleagues at the Department of Commerce where Secretary Pritzker has done so much work to boost the issue of tourism and to make that a real charge for our economic opportunities.

So our goals would be to just pull Commerce into the discussions and figure out how to field this team, and look to build on the work they have done. I will say that tourism is a huge opportunity for our markets. People around the world love to come to the U.S., love to take advantage of this incredible country that we have. And having the kind of transportation facilities that enable people to really see the best of our country, is part of our work. And whether that is improving airports, whether that is getting Hudson tunnels completed, whether that is trying to get Brent Spence Bridge completion, we have a responsibility to also continue working on those areas as well.

Mr. QUIGLEY. I appreciate that. Mr. Chairman, I have got three questions asked and answered, which I guess is leading today, which if I continue to win I guess I get a set of steak knives.

Mr. DIAZ-BALART. Ginsus. Right. Very good.

Mr. QUIGLEY. Thank you, Secretary Foxx. I yield back.

Mr. DIAZ-BALART. I probably shouldn't advertise brand names up here. Mr. Joyce.

Mr. JOYCE. Thank you, Mr. Chairman.

And it is nice to see you, Secretary Foxx.

Mr. Quigley managed to work in one of mine regarding the——

Mr. QUIGLEY. An additional bonus.

Mr. JOYCE [continuing]. Open Skies.

But I was wondering, sir, the President requested to cut Maritime Security Program funding to $186 million. As tensions in the Middle East escalate and crises throughout Europe, Africa, and South America continue to take place, how is your agency sure that the level of Maritime Security Program funding will be sufficient for safely transporting the American goods and services that are necessary in these ongoing events?

And specifically, how have you directly collaborated with the Department of Defense and the Department of State to utilize their expertise in projecting U.S. force and equipment requirements worldwide for the fiscal year?

Secretary FOXX. Well, thank you for the question. You know we are constantly in dialogue with the Department of Defense. I have met with them from time to time. I know our MARAD Administrator meets with them very, very frequently. And this is a matter that we take very seriously, and we know how important the Maritime Security Program is.

The President's budget request, the package that was passed last year gave a bump to the Maritime Security Program. The President's recommendation is basically consistent with the historical amount that has been invested in it. And, frankly, Congress' efforts back in the fall are causing us to go back and analyze for future budget years. But essentially, as the budgets have come together, our proposal was already in the works and reflects what we were preparing to do before Congress had come in at higher levels, and we are analyzing that to see whether future years should be at those higher levels.

Mr. JOYCE. So you feel the funding is adequate?

Secretary FOXX. Well, we feel that at the President's funding levels, that we can continue to operate the program. But of course, as with anything in government, and particularly when it comes to security, you are always hoping for more dollars.

Mr. JOYCE. Mr. Secretary, in July the inspector general's office found that numerous Department of Transportation agencies were improperly closing out contracts. It has led to delays in ending projects, inefficient reporting, improper cost validation, and a lack of overall transparency. Your Department concurred with the recommendations that the inspector general's office provided to remedy the misuse of taxpayer funds.

How have these proposed improvements been implemented? And how can you assure the subcommittee that improper contracts closeouts will not continue to be a problem in the future?

Secretary FOXX. Well, we take our audits very seriously. We take our closeout process very seriously. As we compare with other agencies, I would stack DOT up with anybody in terms of the degree to which we handle our business as cleanly and as transparently and as accountably as you would want.

I would like to have our staff write back a fuller response. But you have it from me that any irregularities you might have seen are really on the margins, and anything that we find that we are not doing so well, we focus in on it and we fix it. And I think you will find that in our response that we have taken corrective action.

Mr. JOYCE. Very well. I will take you at your word that those improvements are being made.

Secretary FOXX. I will get you a fuller response from our team.

[The information follows:]

"The Department strives to ensure that each and every contract is managed properly. We are currently working to implement each of the recommendations highlighted in the OIG's July report. This includes the following actions:

- Implementing an oversight process for monitoring compliance with Federal and departmental closeout requirements.
- Issuing additional departmental guidance on the contract closeout process. Key topics include requirements for: file retention and storage, contract closeout file documentation, initial funds reviews, closeout of individual task and delivery orders, timely submission of adequate evidence of physical completion, and safeguards to prevent the destruction of contract files before closeout is completed.
- Requiring Operating Administrations' acquisition offices to update or finalize all internal contract closeout policies, including references to key Federal and departmental requirements.

In addition, the Federal Aviation Administration (FAA) will be implementing an oversight process for monitoring compliance with their Acquisition Management System (AMS) closeout requirements. The FAA will also issue additional AMS guidance on the contract closeout process.

Existing Departmental policy correctly places the responsibility for management and oversight of the contract closeout function with the individual Operating Administrations (OA). This delegation is appropriate for the level of detail and variation in business processes of the individual OA.

To support the OAs in the management of the activity, the Department's on-going deployment of the Department Procurement Platform (DP2) – a modernization effort to integrate the Department's procurement and financial management systems – will provide additional capabilities to support more standardized business practices and tracking of contract closeout activity.

Additionally, the Department's recent deployment of its Procurement Management Review (PMR) program provides an additional tool to support compliance oversight of the contract closeout process. These new tools and oversight mechanisms will support the OAs as they continue to develop and manage their operational contracting and closeout functions."

Mr. JOYCE. Thank you very much.

No further questions, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, sir.

Mr. Cuellar, you are recognized, sir.

Mr. CUELLAR. Thank you, Mr. Chairman, Ranking Member.

Mr. Secretary, thank you. I know this is your, like somebody mentioned, your last time, and thank you for serving honorably. Thank you so much.

Secretary FOXX. Thank you.

Mr. CUELLAR. I want to talk about the highway bill that we just passed. The issue that we have been emphasizing has been the freight corridors, Laredo, as you know. And, hopefully, before the year is over we can have you there. We had Chairman Shuster there a couple times. We had Chairman Mario Diaz-Balart also there. John Culberson has been there also.

And as you know, Laredo, besides LA and New York, Laredo is the third-largest port, largest inland port. Just to give you some quick numbers, and I am trying to make a point why, Laredo handles 66 percent of all the commercial trucks that pass between the U.S. and Mexico. That is 3.8 million trucks a year. And if you put the trucks, line them up, they will go around the world twice on that. Seventy-nine thousand buses a year and about a little bit over 8,000 trains a year also.

The freight corridor was important to us because, as you know, for a while it didn't cover the freight corridor. And now that it is been extended to cover 41,000, it will cover now the port of entry.

My question is, given these large numbers that I just gave you, how do we ensure that a place, a freight corridor, I-35 between Laredo and San Antonio, and then of course from there goes on to Dallas and Oklahoma and all the way to Minnesota, how do we ensure that a place like this is not left behind? Because we are not asking for any special favors, we are just saying look at the pure numbers, look at the pure numbers that we have there. So I don't know when your notice of funding availability will come out on those $850 million for those freight highways and the other ones.

We also added, under TIGER Grants, we also made port infrastructure eligible also for this. So, again, when is your next notice of funding availability for your eighth TIGER round, and course for the freight corridors? Because we are just saying just look at the pure numbers, nothing else.

Secretary FOXX. I think it is a great question. And let me, at the risk of being the skunk at the picnic, let me offer to you a reality, which is that there are a lot of projects I want to see happen in this country. You have given us an example. The Brent Spence Bridge crosses over from Ohio to Kentucky. We could wipe out the discretionary program with one project and probably not even get the entire funding put together for that project.

And so when we talk about spending in this area, it is just the numbers are massive. We have got tunnels in the crossover into New York that need to be fixed, and some would argue the price tag for that whole project is north of $20 billion.

So we endeavor always to do the best job of striking the balance, looking at those numbers and looking at the need. But, honestly, we are really struggling to get the resources out in a magnitude that will make the kind of difference that you need in Laredo and that needs to happen all across the country. And that is, frankly, why the President's budget reflects increased spending levels. It is not because we just woke up one day and wanted to go spend more money, it is because this country really needs the investment.

Mr. CUELLAR. So to kick the skunk out of the room, and I am not talking about you, but just to kick the—and I understand, I mean, there is never enough money, I understand. We are all appropriators and we understand that there is never enough money.

But, I guess, do you know when those notice of funding availabilities will come out or can you have your office contact the members and let us know? Because I know that somehow that money is going to be appropriated. And like I said, all we are looking at, if somebody can match those numbers that I just gave you, I say go ahead. And I am talking about freight, not about other things. Be happy to challenge anybody on those numbers.

The folks, everybody talks about border—I have got a few seconds—every talks about a border, they want to build a wall, they what to send more men and women in green, border patrol, but nobody talks about commerce, and to us trade is extremely important to us.

But we appreciate your——

Secretary FOXX. Yes, sir. And the answer is days, not weeks on the NOFA. It will come out very shortly.

Mr. CUELLAR. Thank you again for your service.

Secretary FOXX. Yes, sir.

Mr. DIAZ-BALART. Thank you, Mr. Cuellar.

Thank you, Mr. Secretary.

Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Mr. Cuellar is right, trade is so essential, and it is an essential part, as Henry understands, of—one of the most important side benefits, in addition to public safety, of border security is going to be the ability for trucks and traffic and goods and people to travel freely and legally back and forth with Mexico, our largest trading partner. So I am with you on that. Mr. Cuellar is exactly right.

And, Mr. Secretary, we appreciate very much your service to the country. And it is important to note, as you just mentioned, it is an extraordinary thing that you just said, that your entire annual discretionary budget for building bridges, roads, et cetera, for rebuilding infrastructure, could be wiped out with one big project.

Another indication of how important it is that Congress focus the attention of the country and the next President focus the attention of the country on the urgency of solving the looming bankruptcy of Social Security, Medicare, Medicaid.

These hugely important social safety net programs are sending out far more money than they bring in and it is swallowing up the entire Federal budget to the point today where we are, on the Appropriations Committee, responsible for about 30 cents of every Federal dollar.

That percentage will shrink very rapidly in the next decade to about 20 cents on every dollar until we as a country get our arms around and stop the hemorrhaging of money. Our hard-earned tax dollars are being absorbed and redistributed entirely by Medicare, Medicaid, Social Security.

These immensely important social safety net programs have got to be rescued from what will result in a cut in benefits in the years to come. And once we do that, we will have the money for these infrastructure projects. Once we do that, we will have the money to balance the budget.

Because we are doing our part on this committee. The Appropriations Committee has cut over $126 billion in annual spending since 2011. We have done our best to hold the line, we have got a budget agreement this year and next year.

I mention that because it is so important. With that budget agreement, Mr. Secretary, this committee I hope will be able to produce 12 separate appropriations bills, bring them to the floor separately, pass them in the Senate separately, and present them to the President for signature separately.

I want to ask specifically about the EPA's designation change in the standards they made to the National Ambient Air Quality Standards. On October 1 of last year, Mr. Secretary, the EPA finalized the provisions to the National Air Ambient Air Quality Standards. This is especially important to large metropolitan areas like Houston, Texas, that I am proud to represent, the Dallas-Fort Worth area.

Discovered that these changes in the Ambient Air Quality Standards, that EPA recommended changing those standards from 75 parts per billion of ozone to 70 parts per billion. This is going to result in significant costs to metropolitan areas. Dallas-Fort Worth has experienced over $55 million in delays in transportation projects. Houston has experienced over $12 million in delays. And we estimate dramatic costs to metropolitan areas for this very small change from 75 parts per billion to 70 parts per billion. That is a huge impact to nonattainment areas. It also puts our transportation dollars at risk.

I just wanted to ask, how much consultation did the EPA have with you and your office when they made this change in the Ambient Air Quality Standard from 75 to 70 parts per billion?

Secretary FOXX. Yeah, you know, I believe there was probably some conversation between folks at a staff level, but these decisions EPA makes based on their assessment of the air quality and it doesn't necessarily follow that they consult with me about some of these things.

Mr. CULBERSON. So you don't recall exactly? There wasn't much consultation.

Secretary FOXX. I don't recall. I would also say that as a mayor I was actually subject to some of these requirements.

Mr. CULBERSON. Sure.

Secretary FOXX. And I know exactly what kind of consternation it causes. That is part of the reason why the President's clean transportation plan makes sense, is because we are trying to offer up ways for communities to invest in cleaner forms of transportation.

Mr. CULBERSON. Sure. But it is equally important, Mr. Chairman, the Secretary just confirmed there is very little consultation. The EPA didn't really sound like they didn't consult much at all with the Department of Transportation when they came up with these new standards. Because that, of course, has a huge impact on transportation projects, a huge impact on metropolitan areas, making them subject to losing transportation dollars.

I just think it is very unfortunate when EPA comes out with these new rules they don't consult with the agency that is going to have to bear the brunt of this. Further yet example of why EPA is so out of control.

We appreciate your testimony, Mr. Secretary.

Mr. DIAZ-BALART. Thank you, Mr. Culberson.

Mr. Ryan, you are recognized, sir.

Mr. RYAN. Thank you, Mr. Chairman. I was a little bit disappointed Mr. Joyce didn't get to call on me. I was kind of hoping he would be empowered to do that.

Mr. DIAZ-BALART. Mr. Joyce, can you please take care of the——

Mr. RYAN. Recognize the gentleman.

Mr. JOYCE. We would love to recognize the distinguished gentleman from Ohio, Congressman Ryan.

Mr. RYAN. Thank you.

No offense, Mr. Chairman, but that was a hell of a lot better than you did.

Mr. DIAZ-BALART. It is all right. It is a long process, sir.

Mr. RYAN. Secretary Foxx, thank you so much for being here. I want to hit a couple points that have been brought up today. And I appreciate your frank statement a minute or 2 ago about—bad metaphor—but there is no gas in the tank. I mean, we want to fund these projects, there is no juice there. And I think that is a huge problem.

The gentleman from Texas mentioned the entitlement issue. That is where the money is. I mean, we are sitting here not investing in things that are critically important for economic development, Community Development Block Grants.

I love what you are doing with the clean century transportation plan for the megaregions. I represent a district between Cleveland and Pittsburgh, and 7, 8 years ago we made it a tech belt, into a megaregion. And it is two States. So it is hard to get the States to function properly, to make these kind of investments.

So to see your vision here is very heartening because that is what is happening on the ground. And I think your budget, your ideas are reflecting the reality of what is happening on the ground. And I want to thank you for that.

Because I think it is critical for us to develop—just in our region you have Carnegie Mellon, you have Case Western Reserve, you have Cleveland Clinic, you have University of Pittsburgh Medical Center, you have a bunch of universities. That clearly is a natural economic development region, and we need Federal policies to push and initiate those.

And I say this sometimes at the full committee, it doesn't necessarily fit here, but it does. We talk about the entitlements. We have half the country in the next 10 years, less than that probably, is going to have either diabetes or prediabetes. Want to take about Medicare, Medicaid spending sinking those budgets, tightening up what we have here to invest in, and it all comes together.

And I don't think we necessarily need to cut these programs, but we have got to get a heck of a lot more healthier if we are going to be able to have the money we need to make the investments we need to be competitive as a country. And to me it is kind of that simple.

And in Ohio, and I know in a lot of areas, the roads are terrible, State, local, Federal, I mean, they are just bad. They are rough, they are beating up the cars. And if we are going to make the investment, now is the time. Gas, last week in Ohio, at one station—I know this because I almost caused an accident pulling into the gas station—it was $1.29 a gallon. If we are going to find the resources to make the investments into the transportation system, now is the time, Mr. Chairman, for us to make these investments and make these changes.

So, anyway, I want to associate myself with Mr. Price's remarks along the lines of the FAA, and anything we can do from our end to be supportive. And I appreciate you bringing it up, Mr. Chairman.

And lastly, I want to just ask about the TIGER Grant, clearly another opportunity for us to make some investments in transformational projects that can take communities to the next level. We had one in Ohio, end of the day it $20 million. Now we are dealing with 50 new businesses, almost 1,000 construction jobs, and between 700 and 800 new permanent jobs, from one $20 million investment. That is the kind of thing we are talking about. That is the responsibility of government.

We are not here to have the argument: Does government work or not work? We need to make it work. And, quite frankly, I am impressed with what you have put forward here, because I think these are the kind of things that are going to make it work.

So can you talk for a second about TIGER and how you see these livable city initiatives all kind of fitting together in this budget?

Secretary FOXX. Yeah, thank you very much, and I appreciate your comments.

Transportation is built from the ground up and not from the top down. And I think our budget reflects the fact that we need to make a shift in Federal mindset towards transportation and give more regional and local support for the things that need to happen at the local level to integrate the system and to make it stronger.

There is a running theme on Capitol Hill about the investments in things like bicycle and pedestrian investments, for example, which local communities are doing, the Federal Government does not do so much. But to your point on health, that is a really important investment if you live in a community, to have those facilities to make use of. And people use them to get to work.

My time is out, but I think the bottom line is we need to push more money and resources to the local level.

Mr. RYAN. Mr. Chairman, if I could just make one point to the committee. The Secretary probably already knows this. But those bicycle trails, we are trying to create quality of life in communities in Youngstown, Ohio, Akron, Ohio, to bring investment back into these older communities. And that means bike trails, that means river walks, that means these Community Development Block Grants. Because you can't develop the local economy and keep young people and drive them back into a downtown without some of these critical programs, and that is the seed money that we need early on.

So I appreciate it, Mr. Secretary.

Mr. Chairman, thank you for indulging me for an additional 43 seconds.

Mr. DIAZ-BALART. First you say bad things about me and then you take more time. All right, that is all right. It is okay.

Mr. RYAN. Mr. Joyce would have given me a minute and a half, but that is okay.

Mr. DIAZ-BALART. Mr. Yoder.

Mr. YODER. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee.

First, just a quick highlight on the Short Line Rail Safety Institute. Appreciate your work on that. That has been a joint effort between Congress and your Department to advance that. I didn't know if you had any updates for the committee on our work on short line. This is sort of a newer venture to make sure the short line guys have some of the same safety opportunities that the larger rails do. They carry a large amount of the freight and have become a very significant part of transportation in this country. I guess I just wanted to highlight it, and if you have any response to that.

Secretary FOXX. One thing I do want to commend Congress on is helping us create more flexibility in the use of RRIF funds so that short lines can better access them, and we are working to implement those flexibilities. But we are always looking forward to working with industries like the short line rail companies, as well as with Congress, to get things in a safer footing.

Mr. YODER. Appreciate your focus on safety and your leadership there.

I want to turn your attention to some of the new provisions that are coming forward on oral fluid testing. Last May, the Department of Health and Human Services issued a proposed rule to revise the mandatory guidelines for workplace drug testing. The proposed rule would allow Federal executive branch agencies to include oral fluid testing as part of their drug testing programs.

The DOT, as you know, is required to follow these guidelines in developing drug testing programs for regulated industries, including the trucking, airline, railway industries, among others. I understand DOT is in discussions with HHS and the proposed mandatory guidelines for oral fluid drug testing may be at a standstill at this point.

I guess, can you tell us what the status is of those ongoing discussions with HHS? And when do you expect that these proposed guidelines would be made final?

Secretary FOXX. Frankly, I am not as familiar with that issue. Let me get back to you. Let me do some research and I will reach back out to you following the hearing, if that is okay.

Mr. YODER. Yeah, I would appreciate that. Thank you.

[The information follows:]

The DOT is currently awaiting the introduction of oral fluids testing and any other methodologies that HHS determines are scientifically valid and forensically defensible methods of identifying drug use. Consequently, the DOT and HHS have been in discussions since before the 2015 HHS proposed rule to add oral fluids testing to its Mandatory Guidelines. The HHS proposed using oral fluids testing in which individuals may test positive for marijuana exposure, as well as use. However, the DOT's enabling statute, the Omnibus Transportation Employees Testing Act of 1991 (Omnibus Act), only authorizes DOT to test for use. It does not authorize testing for exposure. Further, the Omnibus Act requires DOT testing methods to follow the Mandatory Guidelines. If HHS adopts the final rule as proposed, the DOT will be unable to allow the use of oral fluids testing as described in the Mandatory Guidelines for the transportation industries.

While we support oral fluids testing, the DOT and HHS are still in discussions to remove the marijuana exposure testing from the draft final rule, so that the DOT would be able to proceed with its own rulemaking to allow transportation employers to utilize oral fluids testing in addition to or in lieu of urine specimen testing.

Mr. YODER. Next, I would like to turn your attention back to the budget proposal, specifically related to the gas tax increase proposed by the administration. You know, I harken back to the comments the President made a few years ago when he said, quote: "In an economy that relies so heavily on oil, rising prices at the pump affect everybody. Businesses see rising prices at the pump hurting their bottom line. Families feel the pinch when they fill up their tanks. And for Americans that are already struggling to get by a hike in gas prices really makes their lives much harder. It hurts. If you are somebody that works in a relatively low-wage job and you have got to commute to work, it takes up a big chunk of your income. You may not be able to buy as many groceries, you may have to cut back on medicines in order to fill up the gas tank. So this is something everybody is affected by."

Then he later said: "Every time the price of a barrel of oil on the world market rises by $10, a gallon of gas goes up by about 25 cents."

Now, a few years down the road the President, and effectively your Department, is proposing a 30 percent tax on each U.S. barrel of oil, since oil is hovering around 30 percent. We know a lot of the small independent oil folks are going under, going bankrupt, and I have had people tell me in Kansas that to them this is almost just an intentional kicking them when they are down to throw a $10 tax on this economy when it is already in a troubling spot.

So not only from the independent oil producer side, but from the working families in my district, and my colleagues on both sides of the aisle, their district, our constituents are not clamoring for a 25-cent gas tax increase.

And I guess why do we feel like this is the time to make it harder on families to buy medicine, to buy groceries? Is it because the gas prices are lower and they won't notice it? Why is the President's logic of just a few years ago regarding how bad and sort of aggressive that tax increase would be, why has that changed, in your perspective?

Secretary FOXX. Well, I think the President recognizes that these same families that you and I and he are concerned with are paying an invisible tax today, the tax of a car running over a pothole and the axle breaking, and now they have got to go pay for a huge repair, or new tires, or what have you. And these costs are being visited on by every American family.

So the idea is, is that if we make an investment in creating better conditions on our roadways and creating more options for people to travel that are perhaps lower cost, that we can actually lower the overall impact on people's lives and create more mobility in the process.

Mr. YODER. But that is not really a new concern. I mean, that has been a concern this administration has had for many years, this committee has had, and we are all working. I mean, that is your top priority each day, is to make sure we have smooth surface transportation. It just seems to be, given the status of the oil markets and where many of these companies are, it comes at a really time. And people tell you, they are saying: This feels like they are kicking us while we are down. In addition, it is still pretty hard on a lot of working families.

So I guess I just don't understand why this moment, in the President's final budget submission, something so striking as this tax to come forward. And I guess I would be remiss if I didn't express those concerns to you, sir, while you are before the committee.

Secretary FOXX. If I might just answer very quickly. I think it reflects the fact that to pay for the system we need, we have a lot of bad choices. And I don't think anybody would say that the oil fee that we have proposed is something everybody is running to do, but if we don't do something and don't have a conversation about that now, 5 years from now when the FAST Act expires we will be exactly where we have been over the last 8 or 9 years, which is fumbling around trying to figure out how to pay for the system we know we need.

Mr. YODER. I appreciate your testimony, Mr. Secretary.

Mr. DIAZ-BALART. Full circle to the gentleman from Florida, Mr. Jolly.

Mr. JOLLY. Thank you, Mr. Chairman.

Mr. Secretary, why do TIGER Grant awards go to a disproportionately larger number of Democratic districts than Republican districts?

Secretary FOXX. You know, I disagree with that premise. You know, I have heard the criticism from time to time. And, for example, the last round of TIGER we had almost 40 percent of those dollars go into rural areas, many of which are not Democratic areas.

And I don't exactly know how people slice and dice the arguments about Democratic versus Republican, because, although I don't know, my guess is we are pretty equal in terms of governors, pretty equal in terms of U.S. Senators.

I think there are a lot of ways you could slice and dice that, but we really try to look at the projects on their own terms and not to play political favorites with them.

Mr. JOLLY. So, obviously, I am going to disagree with you on this, and it is a serious matter of oversight for this committee. So in a study of 3 or 4 fiscal years, 63 percent went to Democrat districts, 37 percent went to Republican districts. That is at a time when there were 50 more Republican districts in the country than there were Democratic districts.

Now, on its face I might accept your argument, except for the GAO study that also reported to Congress that 43 projects approved by the Department were advanced with lower technical ratings than 22 more highly rated projects, and that was done without proper documentation by the Department.

In response to that GAO report, are you aware of changes that have been made or additional requirements you have put in place for your Department?

Secretary FOXX. Well, I think that study was done—the GAO study you are talking about was done 2 or 3 years ago.

Mr. JOLLY. Right, it 20 months ago, it was May of 2014. And my question is what have you done in response to those concerns.

Secretary FOXX. I would be happy to answer the question. We have actually made changes, and some of those changes have made it difficult for us to be as geographically diverse as we would like to be. For example, one of the changes is putting in the NOFA the last time that the cost-benefit analysis that we do would be outcome determinative. And because of the cost-benefit analysis, a State like Florida didn't get a TIGER Grant because we didn't have a cost-beneficial project down out of Florida.

So we are playing it by the book. And I think even if you talk to GAO today, the reforms we have made in the TIGER program are ones that they, themselves, believe made a difference.

Mr. JOLLY. Have you had more incidents of accepting applications after the published deadline? That was another concern.

Secretary FOXX. No, actually, to our great pain, we had a situation a couple years ago where the deadline was 5 p.m., and we had some West Coast cities that submitted on 5 o'clock on the West Coast, which is 8 o'clock on the East Coast, and we had to turn some of them down.

Mr. JOLLY. Another finding was that technical ratings of lower-rated projects ultimately selected for funding were later changed to higher technical ratings without documentation. Is that something you have also taken actions?

Secretary FOXX. There is a very technical review the staff does, and then there is a control and calibration team that assures that there is actually evenhandedness across those projects, because sometimes you get a group that grades tougher than the next group. So we have a process around that. I make no apologies for that process because it allows us to keep the system fair. And so we stand by our work on that.

Mr. JOLLY. And that is what we struggle with because, look, I am a believer in the TIGER Grant program, but I do have concerns as to how it is awarded. And, frankly, I will be very honest with you, district interests that come to me with TIGER Grant applications this year, I am suggesting they find a Democratic Member of Congress to endorse them, because I think it works against us as a Republican. Last year Charlotte, the city of which you were mayor, received $25 million in the TIGER Grant. I presume you are aware that that was the largest single State award to any applicant.

Secretary FOXX. Actually, there were two.

Mr. JOLLY. Well, the other $25 million went to an eight-State conglomeration project. So for a single State project, Charlotte received $25 million.

Secretary FOXX. It was a strong application. And it was actually——

Mr. JOLLY. Were you personally involved?

Secretary FOXX. It was actually the first application from Charlotte, despite submissions that had been made in the past, that they have gotten under my tenure.

Mr. JOLLY. Were you personally involved in——

Secretary FOXX. I am personally involved in all of the decisions that come before us in TIGER, and including the submission that was given to those eight States, including Kansas, for a very groundbreaking program that will help truckers find safe places to park.

Mr. JOLLY. Right. And what was the content of the Charlotte application that received $25 million?

Secretary FOXX. It was a station, a train station, very consistent with investments we have made in other parts of the country.

Mr. JOLLY. Okay. Thank you.

Mr. Chairman, I yield back.

Mr. DIAZ-BALART. Thank you.

I want to thank each and every one of you for sticking pretty much to our time limit, and, Mr. Secretary, for also being concise.

We will go on to the second round. I think we should be able to get through that. I don't know if my voice will get through it, but that is a separate issue.

Mr. Secretary, the purpose of the American Recovery and Reinvestment Act, the stimulus bill, was to stimulate the economy by finding what were deemed as shovel-ready projects at the time. The California high-speed rail project received $2.55 billion.

I am not sure if this project was actually accurately classified as shovel ready, because not a lot of shovels have been moving since then. But those funds, though ARRA funds, those stimulus funds must be outlayed, must leave the Treasury by October 1, 2017, or they expire. And, again, it seems California has not spent a lot of this money yet.

How much of that $2.55 billion has the California high-speed rail project actually outlayed?

Secretary FOXX. Well, first of all, let me say that we are working with all of the ARRA projects to ensure that they meet their obligation, including the California high-speed rail project. I am searching here to see the direct answer to your question, which is not here. So I will have to get back to you.

[The information follows:]

As of February 23, 2016, the Federal Railroad Administration (FRA) has outlayed $947 million against the Project's $2.553 billion ARRA grant. In addition, the State of California has contributed $371 million in Proposition 1A and Cap and Trade funds for the California High-Speed Rail Project.

But let me say this. We have been working directly with California on ensuring that they get their spend down accomplished by the September 30, 2017, deadline, and we maintain our confidence that that will happen.

Mr. DIAZ-BALART. Mr. Secretary, staff now is just telling me that less than $150 million has been actually outlayed. So that is a significant portion of the funds that remain unspent despite a tapered match construct. So we are actually now down to the wire. I am not sure how California, again, they have spent less than $950 million over all these years, less than $950 million. And, you know, I am not quite sure how are they going to be able to do it in the time that they have.

But what happens if they expire? What will DOT do if, in fact, the money is not spent by the deadline? And how are we going to make sure that, by the way, it is just not thrown out the door just to get it out without making sure that it is well done?

Secretary FOXX. No, we wouldn't want the money to be just thrown out, and I believe the statute says that the money has to be returned back to the Treasury if it is not spent. But in these large projects oftentimes what happens is the planning efforts take substantial time and the spend down can actually occur at a much faster clip as project obligations begin to come online. And my sense is that is what is going to happen in the California project.

Mr. DIAZ-BALART. California's draft financing plan says that the project will pursue additional Federal funding, and it notes that other projects received greater than 50 percent Federal funds and indicates that voters in California expect a one-third Federal match. Now, this is a single project, in a single State. So what do we say to other rail projects that are waiting for funding—I mean, if that is the case, what do we say to other rail projects that are waiting for funding?

Secretary FOXX. I am sorry, can you repeat the question?

Mr. DIAZ-BALART. In other words, they are supposed to receive, I guess, what, 50 percent from the Federal Government in future years?

Here is my question: Where is the money? In other words, I don't see any way that, at least the Federal portion of it, that that money is going to be there. So just, again, where is that?

Secretary FOXX. Well, look, I think to their credit, California has invested heavily in State resources to support the overall high-speed rail program. Our focus right now is in making sure this first phase gets done and gets done in a fashion that we can all be proud of and, frankly, the obligations are met by the deadline. As the future goes forward, there are a lot of options, but we want California to stay focused on getting this first phase done.

Mr. DIAZ-BALART. And I have a number of other questions, but, again, leading by example on time, Mr. Price.

Mr. PRICE. Well, Mr. Secretary, I am happy to give you a chance to talk about a Recovery Act project that not only was shovel ready, but has had a huge economic impact, a success story. And I would like for you to talk about any of those you would like to talk about, because your budget does have $3.7 billion in mandatory spending for renewed investment in rail service.

Secretary FOXX. Yes.

Mr. PRICE. And that includes $1.5 billion to develop high-performance passenger rail networks.

Now, it is possible to say renewed because of these Recovery Act investments. Congress provided significant funding for high-speed intercity passenger rail service in the Recovery Act and, for that matter, in the fiscal year 2010 T–HUD bill. However, Congress since 2010 has not provided specific targeted funding for high-speed rail.

So can you talk about those high-speed rail investments? I know about one in North Carolina that I regard as highly successful. I am sure there are others. I wonder if you could just give us some examples and maybe augment that for the record if you wish, because we need to know where things might stand had Congress not abandoned its commitment to sustain investments in high-speed rail, and we need to know where we might go if the rail funding requested in your budget request were to be granted.

Secretary FOXX. So, look, the high-speed rail investments that were made in the area between Charlotte and Raleigh—which, by the way, I didn't have any role in—those investments were significant, half a billion to do things like create track separation, grade separations, speeding up the travel time between those two destinations.

And I think the early evidence is, is that as those systems come online it is making a big difference. People are using it more and the frequencies are increasing and it is becoming more usable for people. And adding on top of that the investments that have been made with the stations along the way, including Union Station in Raleigh.

You are seeing the South start to come back alive with rail service in a way that it hadn't had in quite some time. So we are very proud of that. And we look in places like the Midwest, in the Illinois area, around Michigan, those investments are paying off in significant ways. And so we are very proud of those investments and we look forward to seeing them continue to bear fruit.

Mr. PRICE. I think it would be helpful for the record if you could provide a brief report of some number of those, and they don't all have to be raging successes. I mean, some that are perhaps not spending out at the desired level and having the degree of success that we certainly know about in Raleigh-Durham to Charlotte. But some accounting of that, I think, would be helpful as a kind of benchmark for what we have achieved and where we might go if at some point we can renew this funding.

Secretary FOXX. I would be happy to do so.

[The information follows:]

"Over the last seven years, the Federal Railroad Administration's High-Speed and Intercity Passenger Rail (HSIPR) Program has proven that the Department of Transportation, states, Amtrak, freight railroads, and other industry stakeholders are capable of delivering an effective rail development program to help achieve our mobility goals.

Over $10 billion, including $8 billion from the American Recovery and Reinvestment Act of 2009 (ARRA), has been appropriated for the HSIPR Program. These funds have been well invested, supporting nearly 150 projects in 35 states and the District of Columbia (75 ARRA-funded projects are located in 24 states and the District of Columbia). To date, 79 projects are substantially complete.

Projects will improve the customer experience by reducing trip times, improving reliability, adding new frequencies, and making stations and equipment more efficient and accessible. Examples of outcomes include:

- **Adding Frequencies:** Washington – $752 million for infrastructure improvements necessary to add two round trips between Seattle and Portland, for a total of seven daily. The improved Pacific Northwest Rail Corridor reduces highway and freight railroad congestion while improving rail options between the United States and Canada.

- **Improving Reliability:** Missouri – $21 million to add a new bridge at the Osage River crossing, eliminating a one-track bottleneck and improving on-time performance for passenger and freight trains. A University of Missouri study of Amtrak delays and their causes projected a "dramatic decrease in Amtrak delays as a result of this project."

- **Enhancing Stations:** New York – $3 million to complete preliminary engineering and environmental analysis for a new multi-modal station in Rochester, NY. The project is now under construction thanks to a subsequent $15 million grant provided under the Department's successful TIGER Program.

- **Modernizing Equipment:** Multi-State – $800 million to procure approximately 47 new locomotives and 130 bi-level rail cars for routes in California, Washington, and the Midwest. This new rolling stock will replace existing Amtrak or state owned equipment, which will reduce the states' capital equipment costs and increase service capacity and reliability.

- **Track and Bridge Improvements:** Vermont – $52.7 million to complete track, signal, and bridge improvements on the *Vermonter*. The project installed approximately 150 miles of new rail across the State, replaced 130,000 rail ties, and upgraded or replaced 38 switches and 46 rail crossings. In addition to improving safety along the corridor, the track and signal upgrades reduced travel time by approximately 30 minutes.

- **Grade Crossing Improvements:** Pennsylvania – $18 million for final design and construction to eliminate three public grade crossings on the Keystone Corridor between Philadelphia and Harrisburg.\

- **PTC Installation:** Nationwide – $460 million in signal upgrades to implement Positive Train Control (PTC) technology.

Since the passage of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), states and local governments have spent significant time and money preparing planning, engineering, and environmental analyses. Until recent years, no federal funds were available to support this critical groundwork, which is necessary to inform capital investment. But now, many states and local governments have plans in place, which has created a strong "pipeline" of potential rail capital projects in regions across the country. FRA expects this pipeline will create heavy demand for the new grant assistance programs proposed in the Rail Service Improvement Program. These new grant programs will provide the funding required to make market-based investments to turn these studies into improved and new services. Substantial private sector participation is also anticipated for several of these corridors, particularly those operating at a Core Express level of service.

In October 2014, FRA published its first multi-state plan for a comprehensive, high-performing passenger rail network, the Southwest Multi-State Rail Planning Study (Southwest Study). The Southwest Study will support rail planning and development in six Southwestern states, and serve as a model for future regional rail planning.

Currently, DOT and FRA are leading the NEC FUTURE program, a comprehensive planning effort to define, evaluate, and prioritize future investments in the Northeast Corridor (NEC). Through this effort, DOT and FRA are collaborating with numerous stakeholders along the corridor, including the Northeast Corridor Commission (NEC Commission), which is composed of members from each of the NEC states, Amtrak, and DOT. Through NEC FUTURE, FRA will publish a final Tier 1 Environmental Impact Statement (FEIS) and issue a Record of Decision (ROD) in 2016, followed by a Service Development Plan (SDP) in 2017. The completion of these documents is a significant pre-requisite to making major improvements on the nation's busiest rail corridor.

In addition to the FRA-led efforts in the Southwest and Northeast, states in the Northwest, Midwest, Gulf Coast, Southeast, and South-Central have also engaged in regional planning and cooperation. In July 2015, DOT announced that it was utilizing a portion of funds appropriated to FRA in FY 2014 to engage stakeholders further in both the Southeast and Midwest regions to help form more comprehensive regional governance organizations to sustain current planning work and develop a long-term vision for their respective regions. The program includes funding to stand up a Southeast Corridor Rail Commission, similar to the NEC Commission that has proven highly successful in promoting mutual cooperation and planning among NEC states and stakeholders. The new Southeast Corridor Rail Commission would develop a regional rail plan and advance other discrete, consensus rail planning and capital projects in the region.

In April 2015, the NEC Commission released the first joint Five-Year Capital Plan (FY16- FY20) for investing in the NEC. The plan integrates the priorities of the four infrastructure owners, nine operators, and government agencies along the NEC—identifying both funded and unfunded project components (should additional capital dollars be made available). The plan proposes that the federal government assume primary responsibility for funding the elimination of the state of good repair backlog on the NEC. The Five-Year Capital Plan is updated annually with the input of all the NEC stakeholders. The NEC Commission expects to release the FY17-21 Five-Year Capital Plan this spring.

Additional rail investments include:

- *Safe Transportation of Energy Products (STEP) By Rail Program:* In FY 2015, Congress appropriated $10 million in discretionary funding for the STEP Rail Program. This funding is available for public and private railroad grade crossing enhancement and track improvement projects that improve safety on rail routes that transport flammable energy products. On September 2, 2015, FRA released a Notice of Funding Availability (NOFA) to solicit applications for the available STEP Rail Program funds. Applications were due November 4, 2015. "Flammable energy products" were defined as crude oil, ethanol, and natural gas in the NOFA. Under the STEP NOFA, FRA made nine selections for projects in eight states: LA, WI, CA, AR, IL, MN, ND, and WA.
- *Railroad Safety Grants:* In FY 2016, Congress appropriated $50 million for necessary expenses related to railroad safety grants. This year, FRA will release two NOFAs:
  - $25 million for railroad safety *infrastructure*—acquisition, improvement, or rehabilitation of intermodal or rail equipment or facilities
  - $25 million for railroad safety *technology*—train control and components, ECP brakes, rail and track integrity inspection or warning systems, switch position indicators and monitors, remote control switches, and other new technologies."

Mr. PRICE. Your budget also includes an important proposal to stand up a Southeast Corridor rail commission, similar to the Northeast commission, which would allow for better coordination of rail investment. And here we are talking, of course, not just about Federal investment, but coordinating local, State, and other investment, other key stakeholders' involvement.

So I wonder if you could elaborate on this? What would you say about your Department's efforts to support rail development in the Southeast? What would be the importance of this new commission in building on these efforts?

Secretary FOXX. I think it is very important because most regions that have good intercity passenger rail have a compact system. They have multiple States that have joined together and planned together, invested together in improving intercity passenger rail. That is true in the Midwest, it is true in the Northeast Corridor, and it should be true in the South.

Historically, North Carolina and Virginia have been part of a compact, but it has not included States like South Carolina, Georgia, Alabama, Florida. And we happen to think that if we could encourage those States to come together and be part of a compact and really be a voice for intercity passenger rail in that region that we will see over the next decades a lot more access and a lot more progress towards getting intercity passenger rail.

I think over the longer term I would like to see the Northeast Corridor and the Southeast Corridor become an East Coast corridor so that we can really string together a strong intercity passenger system.

Mr. PRICE. Sounds very good to me.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price.

Mr. Cuellar.

Mr. CUELLAR. As one of those Democrats that did not get one of those TIGER Grants, but my memory might fail me, Mr. Chairman.

Mr. DIAZ-BALART. It doesn't.

Mr. CUELLAR. One of the best members is the chairman that we have here.

But let me ask you about the rail. Your folks are been fantastic. If you remember, Mr. Secretary, back about 2 years ago we brought in some of the Mexican officials to meet with you about, I guess, the first passenger train crossing. They were looking at setting it up, and you sat with us. And we want to thank you for your time.

Working with the Texas Department of Transportation, we added some language, report language, asking you or your FRA to help work with the Mexicans so we can align the crossings. And I would just ask—and your folks at FRA have been fantastic, and I just want to say, you know, I want to thank them—just encourage you, because we want to have not walls, but we want to have bridges, and whether there are trucks or we are having trains.

And I would ask you to just—you know, this passenger train, if we can just have your folks, just encourage them to move faster on that. They have been doing good. Number one.

Number two, we also had added some language where the committee directed GAO to do a study about train crossings. The trains that we have, for example, in the southern part of the United States and northern part, when they come over across an international bridge, then they get stuck in the middle of town and they hold people going to school, to work, et cetera, et cetera. And there was a GAO report, and you all responded, and I want to thank you for that response and just ask you again to have your folks look at that.

Because, again, for us on the border, we want to balance security with the legitimate trade and tourism and retail. So trucks are not only important to us, but the rail crossings. So one is cargo holding up, and then the other one is getting the Mexicans to work with us in aligning the passenger part of it.

So your folks have been doing a great job, I just want to bring that to your attention and just ask you, I look forward to working with you and your folks on those two issues.

Secretary FOXX. Thank you. Will do.

Mr. CUELLAR. Thank you, sir.

Mr. DIAZ-BALART. Thank you.

Mr. Secretary, I want to hit you briefly on a couple of other little issues—not small issues. But your budget makes claims for better planning at the State and regional levels, establishment of multimodal programs that cut across traditional silos, et cetera, and better regional strategies. But they are only achieved in this budget, in your proposal, by, in essence, this totally unrealistic mandatory spending shift.

So here is my question: Can you achieve those goals without new taxes and spending within the framework of what we are going to have to work with, which is the FAST Act and the bipartisan budget agreement?

Secretary FOXX. I think you can make some progress, but it would require statutory changes to do, because currently, for our surface programs in particular, much of that program runs through our States. And it is very difficult to imagine a way the Department can, within our existing authorities, direct more of those resources to the MPO level, for example, or to local governments. But if Congress were willing to take a look at that, I think that that is one way it could be done within the resources.

Mr. DIAZ-BALART. And do you foresee then language coming forward to, in essence, do that?

Secretary FOXX. The GROW AMERICA Act actually contains some language that would do that. And so we have had that out there for a couple of years. And I would be happy to engage with you in any ideas you have or we can work together on it.

Mr. DIAZ-BALART. Great. And let me just now, switching gears, I think there have been a lot of questions on the whole FAA reform. So I am not going to touch on that. But many argue that the FAA needs dramatic reform to better serve the public and to modernize airspace.

So based on your experience and your time there now, can you potentially identify some possible reforms to make it a more productive organization? Are there acquisition reforms that could be put in place so that FAA could move more quickly to modernize the national airspace? That is one of the criticisms, obviously, that we always hear.

So do you have any ideas as to, other than what the authorizers have proposed, what are some other ideas that you think might be helpful to modernize and reform the FAA?

Secretary FOXX. Yeah. Look, I think I am very fortunate because I have a very strong FAA Administrator, who is one of our brightest people and a strong leader. But from an institutional standpoint, I would say that one of the most significant challenges is that with FRA or FTA or NHTSA or any of our other agencies, the procurement and the human resource functions are ones that are still ones that the Secretary, whoever he or she happens to be, has visibility in and the ability to impact.

In 1995, Congress essentially handed to FAA the controls on those issues. And when it gets to something as big and complex as NextGen, there is not the level of redundant oversight for something like that that you would have for another agency. And so I think looking at those issues would be a good place to start.

Mr. DIAZ-BALART. Mr. Price, do you have any further questions?

Mr. PRICE. Yes. Thank you, Mr. Chairman. As we wrap up, I have a couple of things briefly I would like to reflect on. I want to give the Secretary a chance to reflect broadly himself, so I will close with that.

But I first want to say with respect to the multiple references we have seen today, heard today, to our own fiscal situation, we are in a tight spot, there is no question. And this budget submission certainly demonstrates that. It is, I think, a good solid submission. Its full implementation would require additional resources beyond the 2-year agreement we are working with.

I don't think any of us ever thought the 2-year agreement was lavish or even adequate, but it beats sequestration; therefore, we are going to hope that we can keep it in place and write bills that can pass and go forward under the regular order. That is much to be desired, but no one should mistake that process for an adequate process.

And certainly, the overall spending picture that so many have referred to, particularly the growth of mandatory spending, that is certainly a major reality we are dealing with.

I think the overall tax system is as well. You know, the FAST bill, even though we are very happy to see the achievement of an authorization, it has no permanent funding source. So it is patched together, and in that sense, is limited and doesn't offer sure guidance for the future.

So if not, the gas tax, when gas prices are as low as they are now, then what? I think the attitude of a lot of us has been that—we are very flexible on this, but we know very well—it is fairly recent history, after all. We know very well when this actually was successfully dealt with. It was dealt with in the 1990s with a major bipartisan budget deal and one with Democratic heavy lifting alone.

These were comprehensive deals. Something for everybody to hate, in other words. But they did deal with entitlement spending, they dealt with taxes, and they dealt with appropriated spending. And the result was 4 years of balanced budgets, 400 billion of the national debt paid off, and room for the kind of investments we have been talking about here today.

I mean, what is so hard to learn about that lesson? But we are not going to get there with just one-off proposals about any one aspect of this. It has got to be comprehensive, and we got to find the political will, and once again, the reduced political friction. Because these were not easy to do, but they are virtually impossible to do now, those kinds of deals, and they are called a grand bargain.

Well, we are going to have to have a grand bargain. I fervently hope for such an approach to be brought forth early in the new administration, whatever that new administration looks like.

So I have taken most of the time, Mr. Secretary, but I do want to give you the last word here. You as mayor, we have referred to this. You had a great legacy as mayor in terms of transportation, a light rail system that is a model, the expansion of the international airport. What are you proudest of, what would you point to as the greatest achievements, biggest accomplishments of your time as Secretary?

And then, of course, the converse of that, what are your biggest frustrations? What is the unfinished business that you want to make certain that we know we have got to deal with?

Mr. DIAZ-BALART. He can leave names out of this, right? He doesn't have to mention people specific that he doesn't like.

Secretary FOXX. Well, first of all, thank you for the opportunity to answer the question. With 10 more months to go, I hope I don't get too retrospective, because we have got a lot of work still to do. But I would say that we have been working to build the right framework for the country going forward.

When the interstate system was developed in the 1950s, it was developed really to connect the country, and it has done a marvelous job of doing that. But we have different challenges today. We have challenges of making all of these different modes of transportation more well integrated. We have demographic pressures I talked about at the beginning. And everything that I have done as Secretary has been designed to help us build for the future, whether it is the technological focus, or whether it is arguing for structural changes in both how we fund transportation and how those funds are distributed.

And whether it is the enhancements and safety that we have tried to adjust to, for example, with oil, crude by rail, and the recognition that we are going to become a higher producer of energy going forward, creating the environment where we can do that safely.

These are things that I am very proud of, and I would say that I have tried to be a builder, a builder of bridges, literally and metaphorically.

Mr. PRICE. Thank you. I commend you for that statement and for your work as Secretary. And we aren't quite closing the curtains yet, obviously. We look forward to these next months when we can work productively together.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price.

And Mr. Secretary, I look forward to working with you as well. You have got almost a year left. And as you know, this committee will roll up its sleeves, we will put together the best bill we can with whatever allocation we get.

And I am hoping, and I know that I can count on you doing the same thing and work in a cooperative fashion, and you know, there is a moment for rhetoric, but that is over now. We are going to have to now again deal with the numbers that we have to deal with and get that done, and I look forward to working with you, sir.

And obviously, I particularly look forward to working with each and every member of this committee as we did last year.

With that, I want to thank the Secretary, and I again apologize. I have been getting sicker and sicker as I have been here. I hope it is not a personal thing. Don't take it personally. It is not a reference to any of you, but this cold is coming on.

Let me thank the Secretary and the staff, the DOT staff, for your answers and your participation. The committee staff will be in contact with your budget office, Mr. Secretary, regarding questions for the record.

And I know we have a number of questions to submit, and I would imagine that other members are going to be doing the same—or will be doing the same thing. So if you would please work with OMB to return the information for the record, to the subcommittee within 30 days from Friday. We will then be able to publish the transcripts of today's hearings and make informed decisions when crafting the fiscal year 2017 bill.

Next Tuesday, we will see the HUD Secretary, and next Wednesday we will see the Administrators of the Federal Aviation Administration and the Federal Railroad Administration. So Mr. Price, any final comments?

Mr. PRICE. Thank you. No.

Mr. DIAZ-BALART. Mr. Secretary, thank you again. Once again, I look forward to working with you, and I thank the members of this subcommittee. This committee is now adjourned.

U.S. Department of Transportation
Fiscal Year 2017 Questions for the Record
Chairman Mario Diaz-Balart
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Diaz-Balart #1

WMATA and Safety

Secretary Foxx, You recently sent letters to the three WMATA jurisdictions regarding safety oversight actions the jurisdictions are expected to take in the next year.

Question: Please provide an update on this situation and the status of FTA's overall transit safety oversight initiative.

Answer: FTA has exercised the new transit safety authority provided by MAP-21 and expanded in the FAST Act to support improved public transportation safety. For WMATA, this includes a Safety Management Inspection resulting in a June 2015 FTA report identifying 54 findings, and an accompanying FTA Directive (15-1) requiring 91 follow-up actions by WMATA. In key areas, WMATA is not effectively balancing safety-critical operations and maintenance activities with the demand for passenger service. In September 2015, FTA approved the WMATA corrective action plan for Safety Directive 15-1 and is closely monitoring its implementation.
In October 2015, FTA issued Directive 16-1, which realigned the work of the federally mandated State Safety Oversight Agency for WMATA - the Tri-State Oversight Committee (TOC) -- so that its work would be performed under the direction of FTA. FTA's WMATA Safety Oversight team includes inspectors, investigators and auditors. On December 15, 2015, FTA issued Safety Directive 16-2, requiring WMATA to address the TOC's open findings; which includes 217 safety findings issued to WMATA since 2008 that remained open.

On February 9, 2016, FTA issued a determination that the inability of the TOC to enforce its findings has rendered it incapable of providing adequate safety oversight, and therefore, FTA will administer the State Safety Oversight Plan over WMATA. FTA's provision of safety oversight for WMATA is temporary and will continue only until the District of Columbia, Virginia, and Maryland establish the federally required State Safety Oversight Agency capable of carrying out a State Safety Oversight Program that is compliant with current federal law. Virginia, Maryland and DC have until February 9, 2017, to establish a new SSOA for WMATA or risk having up to $15 million in Federal transit formula grant funding withheld.
As of April 1, FTA has conducted 107 inspections that cover track, the Rail Operations Control Center, vehicle and systems maintenance, automatic transit control and traction power. During these inspections, we have identified 229 defects requiring 66 remedial actions by Metro. In addition, we are directing 140 current open investigations.

Mr. Diaz-Balart #2

FTA New Starts Funding

The Administration's budget request includes $3.5 billion for FTA's New Starts, an ambitious request. This level exceeds the negotiated pay-outs amounts in the full funding grant agreements.

Question: Last year, the Administration requested an extra $15 million. What was the methodology for deciding on an extra $25 million for each signed FFGA this year?

Answer: Last year the Administration recommended an extra $15 million for each signed full funding grant agreement (FFGA) that was not supported in the appropriations act. FTA is recommending the extra $25 million for each signed FFGA this year for the following reasons:

1) To help accelerate the payment of federal funds to better match cash flow needs on these construction projects. Nine of the ten projects are over $1 billion in total cost, and the Federal share represents less than 50% in most cases. Each of them is incurring sizable financing costs that can potentially be lowered if additional federal funding can be provided sooner.

2) To help complete our payments on the FFGAs sooner to make room for the large number of projects advancing through the program that will need funding in future years. If funded at the levels recommended by the Administration in FY17, three projects would have their CIG payments completed – San Francisco Third Street Light Rail, Honolulu High Capacity Transit Corridor, and Orlando SunRail Phase 2 South.

Mr. Diaz-Balart #3

FTA New Starts Funding

Question: How much money will be saved, both local and Federal, over the life of each project? And what is the aggregate savings for this group of projects in the budget?

Answer: Only the project sponsors can provide that information, not FTA, since we do not manage the projects or the financing arrangements directly. However, the transit agency constructing the Portland Milwaukie LRT project provided a letter to FTA in 2010 stating that an increase in the annual payment of New Starts funding from $100 million to $150 million per year would shorten the payout schedule by four years and save roughly $135 million in financing costs over the life of the project. FTA's share of any savings realized would match our funding share in the FFGA, which for the Portland Milwaukie project is 50 percent. While our FY 2017 budget proposal includes a more modest $25 million accelerated payment for each project, we believe it can still help to deliver the projects at lower costs. And if the accelerated payments can be sustained in future budgets as well, further savings could be realized and the project payments completed in fewer years.

Mr. Diaz-Balart #4

FTA New Starts Funding

Question: How much time will we shave off each payout schedule, thus freeing up the project pipeline?

Answer: Payout schedules could be shortened one year or more depending on the funding levels appropriated. Three projects would have their federal funding payments completed with the amount recommended in FY17 -- San Francisco Third Street Light Rail, Honolulu High Capacity Transit Corridor, and Orlando SunRail Phase 2 South – thus freeing up the project pipeline for additional projects in the future.

Mr. Diaz-Balart #5

FHWA: New Competitive Highway and Freight Grants

The FAST Act established a new program to fund the most important freight projects in the country. Competition for this funding will be fierce and you will likely have to reject dozens of perfectly good projects. That being the case, DOT must be able to demonstrate why the winning projects best serve the national interest.

Question: Mr. Secretary, can you please outline for us how this program will work both this year and in fiscal year 2017?

Answer: The process the Department will use for fiscal year 2016 for administering the Nationally Significant Freight and Highway Grants program – which we call the FASTLANE program -- will adhere to the requirements of the statutory language in the FAST Act and the requirements for competitive grants at 2 CFR Part 200.

The Department published a Notice of Funding Opportunity (NOFO) for fiscal year 2016 on March 2, 2016, to solicit project proposals from eligible applicants (the weblink is: https://www.transportation.gov/sites/dot.gov/files/docs/FY16%20FASTLANE%20Amended%20NOFO.pdf). Applications will be evaluated to determine whether the project satisfies statutory requirements established in the FAST ACT. This will include the requirement for large projects to generate national or regional economic, mobility, or safety benefits and that mobility effects of small projects are considered for the State or region in which the project is located, as well as selection criteria outlined in the NOFO. In accordance with the FAST Act, the Department will notify Congress 60 days before issuing a FASTLANE grant.

The FAST Act requires that the National Surface Transportation and Innovative Finance Bureau administer the application process for this program. The Office of the Under Secretary for Policy, the Bureau's oversight office, is currently administering the FASTLANE grants application process.

Mr. Diaz-Balart #6

FHWA: New Competitive Highway and Freight Grants

Question: Whenever you are talking about competitive funding, transparency in how winners are selected is key. Are there performance or cost-benefit measures that DOT will use to rank projects? Will you be able to provide that data to Congress?

Answer: This year's solicitation for FASTLANE Grants is structured to require applicants to submit information that will allow the Department to make the specific determinations required by the statute, including that large projects are cost-effective. The Department will consider the extent to which the project addresses four merit criteria that are detailed in the NOFO: (1) Economic Outcomes; (2) Mobility Outcomes; (3) Safety Outcomes; and (4) Community and Environmental Outcomes. The Department will also evaluate applications against two other criteria: (1) Partnership and Innovation; and (2) Cost Share. Each project will be assigned a rating category based on how it addresses the criteria. They will not be ranked or assigned numerical scores.

The Department is committed to ensuring external stakeholders are familiar with how applications are evaluated. In addition to describing the selection criteria at length in the Notice of Funding Opportunity, the Department has published a list of responses to Frequently Asked Questions and has hosted 4 two-hour webinars on the Nationally Significant Freight and Highway Grants FY16 competition. As we do for other discretionary grant programs, we intend to offer debriefings following the competition for applicants that did not receive awards.
Both TIGER and FASTLANE Grants are discretionary grant programs, but have distinct purposes, statutory requirements, and selection criteria. The Department will ensure appropriate documentation throughout the review and selection process for each program.

Mr. Diaz-Balart #7

FHWA: New Competitive Highway and Freight Grants

The reason I am asking about performance data is that DOT has had difficulty in the past explaining its funding decisions. For example, when GAO reviewed the TIGER program in 2014, they found that DOT could not document why 43 low-rated projects received awards.

Question: Mr. Secretary, what is DOT going to do differently under the new freight program to make clear that funding awards are based on merit?

Answer: DOT's awards under competitive grant program will continue to be based on merit. Using recommendations from previous audits of the Department's discretionary grant programs and lessons learned, the Department has made significant improvements in documenting key decisions made in evaluating grant applications and selecting projects. The procedures and internal controls that we will employ for FASTLANE will ensure a transparent, merit-based review and selection process, consistent with the criteria described in the NOFO, resulting in merit-based awards. The justifications for those awards will be part of the statutory notifications provided to the relevant congressional committees.

Mr. Diaz-Balart #8

NHTSA Vehicle Safety

The budget requests $250 million for NHTSA vehicle safety research, a 64% increase. This includes over $50 million for vehicle electronics research. There is also a legislative proposal to add another $200 million for automated vehicle pilots. This is a monumental funding increase, and a major expansion of NHTSA's cyber research mission.

Question: Mr. Secretary, it was my understanding that self-driving vehicles, while very promising, are still many years away. What is the justification for making this large investment in 2017?

Answer: Given that Europe and Japan have invested significantly in vehicle automation research and the Chinese manufacturer Baidu has announced plans to begin testing its highly automated vehicle in the U.S., the requested investment is needed to help ensure that the U.S. maintains its competitive lead in this technology. U.S. vehicle manufacturers and companies like Google are seeking further opportunities for deploying highly automated vehicles on the public road to gain the additional performance data and public reactions and feedback necessary to aid in further refining the technology of those vehicles.

Automated safety technologies present tremendous, fast-evolving opportunities for saving lives, saving time, and saving fuel. NHTSA has requested $200 million in FY 2017 to realize those opportunities, by facilitating and accelerating the deployment such life-saving automated safety technologies. The requested $200 million will fund work with state partners, manufacturers, and other stakeholders to research and develop a national policy framework, operational guidance, a model state policy, tests and standards, and other policies and procedures necessary for the safe deployment and operation of automated vehicles and technologies. NHTSA will fund multiple pilot deployments to test highly automated light- and heavy-duty vehicles across the country, and to research different operational approaches to automation. The Agency expects to fund large-scale deployment pilots to test connected vehicle systems in designated corridors throughout the country; and to work with industry to ensure a common multi-state interoperability framework for connected and automated vehicles.

To support these activities and keep pace with highly automated vehicles and vehicle cybersecurity, the FY17 budget request also seeks $55.6 million for Vehicle Electronics and Emerging Technologies. This program will test and ensure the safe deployment of increasing levels of vehicle automation and vehicle cybersecurity. The program will conduct research to support Agency decisions and safety requirements in the areas of highly automated vehicles and other emerging technologies, as well as electronics systems safety, including vehicle cybersecurity. Europe and Japan have invested significantly more in vehicle automation research and this investment will help to ensure that the US maintains its competitive lead in this technology.

Mr. Diaz-Balart #9

NHTSA Vehicle Safety

Question: Last year you requested just $4 million for electronics research and, fortunately, we were able to provide that. Now, just one year later, you are requesting over $50 million for the exact same thing. Why has there been such dramatic inflation in what NHTSA needs to stay on top of these technologies?

Answer: Automated safety technology is emerging at a faster pace than anyone could have predicted even a short time ago. If we are to meet our goal of transforming vehicle and highway safety, we need the support of Congress to make necessary investments in NHTSA's capabilities. The requested increase will go toward essential research into vehicle electronics and emerging technologies, including 20 additional positions to strengthen our existing research and analysis capabilities in this area. If an innovation will make the roads safer, the Department of Transportation wants to encourage its adoption. The Department is fully committed to the era of crash avoidance through automated and connected vehicles.

The support provided by the Congress in FY 16 allowed NHTSA to complete initial research in the areas of automated vehicles, vehicle cybersecurity and electronics reliability. In the Agency's January 2016 report to Congress, NHTSA identified additional critical research areas based on its analysis of automotive electronic control systems safety. Those areas were informed by public input and the FY17 budget request reflects its findings.

Mr. Diaz-Balart #10

NHTSA Vehicle Safety

The budget also requested increases for NHTSA's Office of Defects Investigation. This same office has been audited by the Inspector General twice in just the past five years.

Question: What progress has been made on implementation of the IG's recommendations from both last year's report and the 2012 audit report?

Answer:

2015 Report

Of the 17 IG recommendations, NHTSA addressed six recommendations on time under the aggressive schedule established by the Agency. The OIG has closed 4 of the recommendations (Recommendations 6, 13, 15, and 17) and requested additional information on the remaining two which NHTSA is addressing. NHTSA leadership recently met with the Inspector General and they agreed to conduct regular technical meetings so that NHTSA can present its plans for implementing the remaining recommendations and address any additional OIG concerns more efficiently.

2011 Report (Note: the report was issued in 2011)

The OIG found that while NHTSA completed all of the recommended actions, it did not have sufficient controls in place to ensure that staff consistently followed the Agency's new procedures. Additionally, while NHTSA developed a training plan to ensure staff has the skills necessary to meet its mission, it did not fully implement the plan.

NHTSA is pursuing multiple efforts to enhance the Agency's effectiveness in achieving its safety mission. These efforts include developing and implementing stronger internal controls, assessing compliance with our internal policies and procedures and developing and executing a robust training program. NHTSA is updating performance evaluation plans for the Office of Defects Investigation division chiefs to increase accountability and is working to identify a software solutions to improve protection of personally identifiable information and integrate that into ODI's quality control processes. NHTSA also is creating a new position to focus on the ongoing assessment of training needs, establishing a dedicated training budget, and developing and executing a formal training plan for ODI staff. We plan to complete all these actions by June 30, 2016.

NHTSA's FY17 budget request would establish a dedicated funding source for the Office of Defects Investigation along with additional travel funds to support both training and enhanced field inspection capabilities. NHTSA will also seek out and hire an individual with expertise in quality assurance to develop and implement mechanisms to ensure Office of Defects Investigation staff consistently follows established procedures and that procedures are maintained and improved as requirements or technology dictate.

Mr. Diaz-Balart #11

NHTSA Vehicle Safety

Question: The FAST Act made some funding for NHTSA contingent on your certification that all of the IG's 2015 recommendations have been implemented. This Committee did not incorporate that contingency into the 2016 appropriation, but could certainly do so for the coming year. Do you anticipate being able to make that certification for 2017?

Answer: Yes, NHTSA is committed to completing actions to implement all 17 of the OIG 2015 recommendations by June 30, 2016 and presenting those actions to the Secretary for his certification.

Mr. Diaz-Balart #12

NHTSA FAST Act Provisions on Tire Safety

The recently enacted FAST Act contains three tire-related provisions for which rulemakings are required: tire performance standards for rolling resistance and wet traction; mandatory tire registration by tire sellers at point of sale and; a tire recall lookup tool on NHTSA's web site.

Question: What is the agency's timetable for implementing each of these rulemakings?

Answer: For tire performance standards for rolling resistance and wet traction, the Agency intends to meet the statutory deadline to issue a final rule by December 2017. For tire registration by independent sellers and the development of a tire recall lookup tool on NHTSA's website, NHTSA is moving forward as expeditiously as possible.

Mr. Diaz-Balart #13

NHTSA FAST Act Provisions on Tire Safety

NHTSA has not completed a rulemaking required under the 2007 Energy Independence and Security Act (EISA) that mandated consumer information about tire fuel efficiency, wet traction and tread wear. The White House announced in December 2014 that NHTSA would finalize that rule by 2017. According to NHTSA's most recent schedule, a proposed rule should have been sent to OMB on February 10, 2016 but that did not happen.

Question: What is the agency's revised timetable for completing this rulemaking within the White House imposed deadline?

Answer: This rulemaking is a DOT Priority for 2016. NHTSA is working with the Office of the Secretary (OST) to get documents to OMB for interagency review as expeditiously as possible.

Mr. Diaz-Balart #14

FMCSA Safety Fitness Determination

The FMCSA's Safety Fitness Determination rule notice refers to the current CSA-SMS safety scoring system. GAO has found serious problems with CSA, and that is why the FAST Act directed a complete overhaul of how it works. Yet, DOT continues to move forward with a rule that relies on the current system which we know to be flawed.

Question: Given the data problems uncovered by GAO and the directive from Congress, doesn't it make sense to delay the Safety Fitness Determination rulemaking until you have fixed the scoring system that will govern it?

Answer: The FAST Act requires the National Research Council to conduct a study of specific elements of the Agency's Compliance, Safety, Accountability (CSA) program and Safety Measurement System (SMS) used by the CSA program. It did not, however, require a complete overhaul of the SMS system and did not prohibit the Agency from using certain data elements within the SMS System in its Safety Fitness Determination Rule (SFD). If the National Academies study results in recommendations, the FAST Act requires FMCSA to develop a corrective action plan and incorporate any changes into future rulemaking.

Section 5223(b) of the FAST Act only prohibits the Agency's use of alerts and relative percentiles for each BASIC developed within the SMS system to assign a safety fitness determination. No other limitations are contained in 5223(b) and the proposed SFD is in full compliance with these limitations. Moreover, the proposed rule addresses the GAO concerns by proposing higher data sufficiency standards before assessing a proposed rating.

Mr. Diaz-Balart #15

FMCSA Safety Fitness Determination

Question: The stakes are pretty high given that the rule requires companies be put out of business in certain instances. How can you justify moving forward with a rule that could destroy businesses and jobs because of flawed data?

Answer: As noted above, the GAO report did not indicate that the data used by SMS is flawed. This means they found the underlying data to be reliable.

Using the data as proposed in the Safety Fitness Determination (SFD), is estimated to identify less than 300 carriers annually and propose them as unfit. The carriers that hit the high failure measures proposed in the SFD Notice of Proposed Rulemaking (NPRM) are estimated to have crash rates that are more than 8 times the national averages. As a result, the safety performance of the identified companies indicates extreme evidence of non-compliance.

Finally, it is important to note that carriers with high scores would receive a proposed rating of unfit. The rule proposes a period of 45 or 60 days (45 days for hazardous materials and passenger carriers, 60 days for non-hazardous materials property carriers) during which the carrier can appeal the proposed rating to the Agency's adjudication official, submit additional information the Agency failed to consider, or provide a corrective action plan. Given the quality of the data and these avenues for carriers to remedy any data anomalies that may occur, the Agency believes moving forward with this rule at this time is in the best interest of highway safety and will not result in any safe carriers being unfairly removed from business.

Mr. Diaz-Balart #16

FMCSA Regulations

The passenger carrier industry petitioned FMCSA in August to substantially revise the recently published Lease/Interchange Final Rule, scheduled to go into effect in January of 2017.

Question: Inasmuch as the industry has advised FMCSA the rule will adversely affect their ability to work with other carriers for capacity or emergency reasons and curtail their ability to serve their customers, can you advise this Committee on the current status of the petition for reconsideration and when we might anticipate resolution?

Answer: On March 16, 2016, FMCSA published a final rule extending the compliance date by which motor carriers of passengers operating commercial vehicles under a lease or interchange agreement are subject to FMCSA's May 27, 2015, rule for one year, to January 1, 2018. The Agency received numerous petitions for reconsideration of the 2015 final rule and based upon a review of the petitions, determined that the compliance date should be extended to provide sufficient time to address the issues raised by the petitioners.

Mr. Diaz-Balart #17

FMCSA Regulations

Question: Has FMCSA considered extending the enforcement date?

Answer: Yes. On March 16, 2016, FMCSA published a final rule extending the compliance date by which motor carriers of passengers operating commercial vehicles under a lease or interchange agreement are subject to FMCSA's May 27, 2015, rule for one year, to January 1, 2018.

Mr. Diaz-Balart #18

FMCSA Regulations

The FMCSA's Safety Fitness Determination Notice of Proposed Rulemaking refers to extensive use of the current CSA/SMS system. In the FAST Act enacted in December 2015, Congress directed FMCSA to completely overhaul this system.

Question: While we understand Congress has directed you to issue a rule on Safety Fitness Determination, with the FAST Act directives in place, doesn't it make more sense to complete the CSA/SMS overhaul prior to issuing a new rule for Safety Fitness Determinations rather than build a new methodology built on the same flawed system?

Answer: FMCSA believes it is appropriate to proceed with the SFD NPRM at this time because the focus of the FAST Act directives involves the Safety Measurement System (SMS) and the use of relative comparisons between companies. The SFD rule does not propose to use relative comparisons. It is also important to note that impetus for the FAST Act reforms of the SMS system was the GAO report. While this report questioned the reliability of the SMS system for smaller carriers without sufficient data, it did not find any problem with the system for carriers with sufficient data and, in fact, praised the system for carriers with sufficient data. The SFD rule addresses the GAO concerns by proposing higher data sufficiency standards before assessing a proposed rating and by using absolute scores (scores based only on the carrier's performance) rather than relative scores.

Mr. Diaz-Balart #19

Office of the Secretary Initiatives

Mr. Secretary, putting aside the growth in the programs you have shifted to the mandatory side, the most significant program expansions in DOT are in the Office of the Secretary. I'd like you to briefly describe the reasoning behind some of these new programs and program increases.

You are requesting $5 million in new funds for "Green Ports Study and Pilots".

Question: Can you describe the objective of this new program?

Answer: This program will develop the information necessary to help port operators and government agencies better integrate environmental externalities into port operations. Ports, their customers, and their service organizations all have a complex environmental footprint, encompassing air, water, noise, and congestion. However, responsibility for port-related activities and infrastructure are divided among port operators, domestic and international shipping, trucking firms, shippers, railroads, utility providers, fuel providers, service vessels, security and customs, and State and local governments. Many economically and environmentally beneficial activities, such as truck idle reduction, "cold ironing," or alternative fuels provision, require coordinated investments by multiple organizations, often spanning the public and private sector. This project was identified as clean energy Research and Development as part of Mission Innovation work launched by the President as part of the Paris climate negotiations

This program will identify opportunities for improving the environmental footprint of ports that span the range of participants, and pilot programmatic methods of reducing this footprint. The knowledge gained will be useful to both private participants and a range of Federal, State, and Local government agencies. Success will not only help us achieve environmental objectives, but also help ports to continue to perform their essential economic function within the national freight network.

Question: Will you put in place performance metrics prior to awarding funds for this program?

Answer: Measuring the performance of a pilot project is central to harvesting useful information from the activity. The information obtained from this project will help inform any future development of freight and port performance measures.

Question: Why was this particular area chosen as one of your most significant funding increases this year?

Answer: In the FY 2017 budget, the Department is increasing its focus on freight systems and environmental impacts of transportation. Ports are a critical, yet challenging, part of this equation because of the diverse set of assets and institutions connected with port-related activities, The Green Ports Study and Pilot will be housed within OST because of the difficulty of encompassing the range of circumstances to be addressed within the ambit of existing programs. While the change in requested appropriations may be large in comparison with other changes in OST appropriations, it is a fraction of the broader funds appropriated for competitive grant programs managed by OST pursuant to the FAST Act and the FY 2016 budget. The successful completion of the Green Port Study and Pilots will also inform decision-making on TIGER and Fast Lane competitive grant projects and permit OST to more effectively contribute to the development of "green" intermodal connections in general, and ports in particular.

Mr. Diaz-Balart #20

Office of the Secretary Initiatives

Like last year, you are requesting funds for DATA act compliance - $4 million this year. We did not provide funds in FY 2016 for this.

Question: What will be the consequence if we once again do not fund this initiative?

Answer: The DATA Act calls for the establishment and implementation of government-wide data standards to provide consistent, reliable, and searchable spending data for easy public consumption. Without the requested funding, DOT may not be able to comply fully with this mandate. To be consistent with the requirements of the Act, agencies must establish linkages between award management systems and financial management systems. Although these connections now exist to an extent, they are not uniform, and they do not provide the complete functionality needed for DATA Act reporting. To enable this capability in DOT, the Department must make modifications to both Operating Administration award management systems (for procurement and financial assistance awards), as well as the Department's core financial management system, Delphi. These modifications will allow for a unique number that will identify every procurement action and grant across the Department's management systems and Delphi. Absent this connection between systems, users of USASpending.gov may not be able to drill-down to all of the available detail on each DOT transaction, which is a capability contemplated under the DATA Act.

Further, with respect to just procurement transactions, as opposed to grants and other financial assistance, the Federal Acquisition Regulation (FAR) was recently amended to standardize procurement transactions across the federal government by requiring the implementation of a uniform Procurement Instrument Identification (PIID) numbering system for contracts. The PIID will be the unique identification number needed under DATA Act reporting requirements for all procurement transactions. DOT requested funding to modify the software which integrates our acquisition system, PRISM, with Delphi. These changes are essential for compliant reporting of financial data from financial management systems for all award transactions.

Given the number of DOT systems that will require modification, as well as the complexity and variety of DOT award management processes, a coordinated, central investment approach is required. Without the requested budget, DOT is at risk of not being able to efficiently track grants and contracts using a consistent end-to-end unique identification number throughout the lifecycle of an award.

Mr. Diaz-Balart #21

Office of the Secretary Initiatives

Within Research and Technology, a $5 million increase, for a total of $10 million, is requested for Civil Signal Monitoring as a transfer to the Air Force.

Question: What is the rationale behind this program request and transfer to DOD?

Answer: In accordance with the U.S. Space Based Positioning, Navigation, and Timing (PNT) Policy, National Security Presidential Directive (NSPD)-39, DOT is designated as the civil lead for the Global Positioning System (GPS). Per this policy, "The Secretary of Transportation shall provide resources to the Secretary of Defense for assessment, development, acquisition, implementation, operation, and sustainment of additional designated Global Positioning System civil capabilities beyond the second and third civil signals already contained in the current Global Positioning System program. Global Positioning System civil signal performance monitoring, augmentations, and other unique positioning, navigation, and timing capabilities will be funded by the agency or agencies requiring those services or capabilities, including out-year procurement and operations costs."

Consistent with this policy guidance, DOT provides funding for implementation of civil signal performance monitoring requirements in the GPS Next Generation Operational Control System (OCX). Implementation of the GPS civil signal performance monitoring requirements involves systems engineering, hardware development, software coding, integration, test, verification, worldwide deployment of hardware/software, transition to operations and sustainment, and acceptance of Civil Monitoring Performance Specification (CMPS) requirements. Monitoring of the GPS civil signals is important to DOT as the civil lead for GPS in ensuring the United States provides civil users with confirmation and assurance that the GPS system meets U.S. Government performance commitments (accuracy, availability, etc.).

GPS civil funding provided in past years to the Air Force from DOT has been included in the Federal Aviation Administration (FAA) budget. For several prior years and through fiscal year 2016, the requested funding level in the President's Budget for civil signal monitoring was $27M per year. In fiscal year 2017, the responsibility within DOT for providing GPS civil funding to the Air Force shifted from FAA to the Office of the Assistant Secretary for Research and Technology (OST-R), reflecting the broader need for GPS civil signal monitoring beyond aviation applications. The level of civil GPS funding in OST-R's budget request for fiscal year 2017 is $10M, a $5M decrease from the fiscal year 2016 appropriations level (in the FAA budget), and a $17M decrease in the historically-requested level of funding to meet OCX requirements.

Mr. Diaz-Balart #22

Office of the Secretary Initiatives

You are requesting $3 million for the Innovative Finance Bureau, an activity authorized by the FAST Act.

Question: What is the plan for this new bureau?

Answer: Among the new provisions included in the FAST Act is the establishment of a new National Surface Transportation and Innovative Finance Bureau (the Bureau) within OST that will align, coordinate and consolidate aspects of the Department's existing surface transportation innovative finance programs. The Bureau will build on the establishment of the Build America Transportation Investment Center (BATIC) in 2014.

Over the next few months, efforts will be focused on outlining current organizational structures and processes in existing programs and determining a preliminary description of how the organizational structure and processes will be established and managed in the new Bureau. The Department is revising many program websites, guidance documents, and regulations. TIFIA, RRIF and PABS remain open for applications while the Bureau is being established. Potential applicants interested in the programs should proceed under existing program guidance. The Department will continue working diligently to implement the Bureau and will be providing detailed progress updates to Congress in 90-day intervals. The first 90-day update was submitted at the beginning of March and the next update will be submitted at the beginning of June.

Question: Are there any duplicative activities performed elsewhere in DOT that could be reduced for pay for this initiative?

Answer: The Department is currently working to outline current organizational structures and processes in existing programs and determining a preliminary description of how the organizational structure and processes will be established and managed in the new Bureau. The consideration of duplicative activities is part of this ongoing process. More details will be provided to Congress in future 90-day progress updates.

Question: Will you be setting up performance metrics for this new bureau?

Answer: The Department is currently working to outline current organizational structure and processes in existing programs and determining a preliminary description of how the organizational structure and processes will be established and managed in the new Bureau. The consideration of performance metrics is part of this ongoing process. More details will be provided to Congress in future 90-day progress updates.

Mr. Diaz-Balart #23

California High Speed Rail

About 60 percent of the $2.55 billion in ARRA funds provided to the California High Speed Rail project are unspent. The funds expire on October 1, 2017.

The purpose of the American Recovery and Reinvestment Act of 2009 was to stimulate the economy by funding "shovel ready" projects. The California High Speed Rail project received $2.55 billion from ARRA. I am not sure this project was accurately classified as "shovel-ready" because to date those shovels haven't done much. The ARRA funds must be outlayed – must leave the Treasury – by October 1, 2017 or they expire, and California has not spent a lot of this money.

Question: How much of the $2.55 billion has the California High Speed Rail project outlayed?

Answer: As of April 19, 2016 $1.02 billion has been outlayed of the approximately $2.55 billion in American Recovery and Reinvestment Act of 2009 (ARRA) funding available for the California High Speed Rail project.

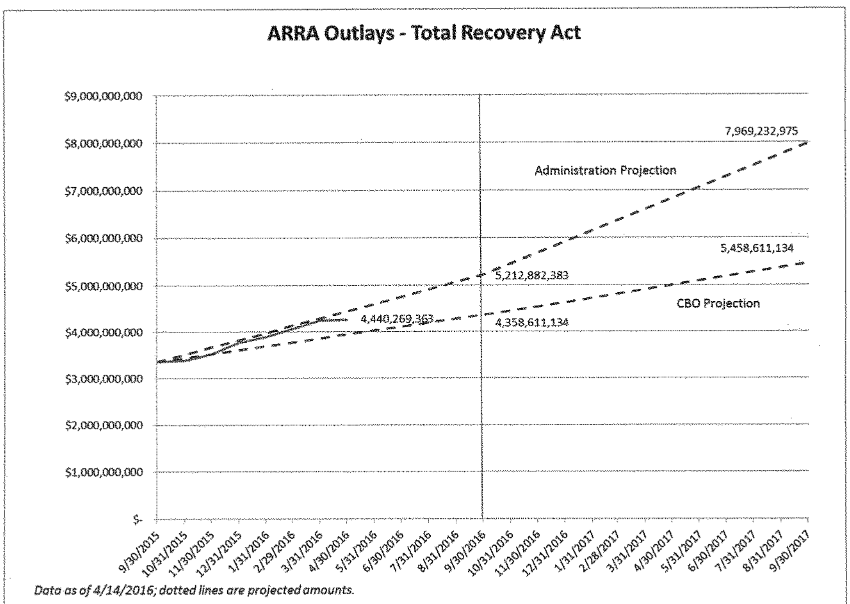
Mr. Diaz-Balart #24

California High Speed Rail

Question: A significant portion of the funds remain unspent, despite a tapered match construct. We are down to the wire here - how is it possible that California can spend these funds before they disappear, given the poor performance of the project?

Answer: The Department has been closely monitoring the progress of this project. This project has moved forward from the planning and environmental review stages into the construction phase. Based on this progress and continued oversight with the California High Speed Rail Authority, we expect to see the pace of construction to increase over the coming months. The California High Speed Rail Authority plans to spend all Recovery Act grant funding in time for the Federal Railroad Administration to reimburse the State by the September 2017 deadline. The Department expects the California High Speed Rail Authority to deliver the project as planned and will continue to closely monitor the California High Speed Rail Authority's progress.

Additionally, the following chart shows that for the program overall, FRA's High-Speed and Intercity Passenger Rail ARRA outlays are on track compared to Administration projections.



Mr. Diaz-Balart #25

California High Speed Rail

Question: What happens if funds expire? What will DOT's response be? Will there be any repercussions, any lawsuits? Will you continue to be a cheerleader for the project?

Answer: Funds associated with the California High Speed Rail project were provided for in the ARRA and in the Transportation, Housing, and Urban Development and related Agencies Appropriations Act for 2010 (Fiscal Year 2010 Appropriations). The ARRA funds are available for outlay or expenditure through September 30, 2017. After that date, any remaining funds will be returned to the Treasury Department.

All FRA's ARRA grant agreements provide that if the grantee does not submit invoices to FRA in time to be paid by the September 30, 2017 deadline, the grantee must still complete projects using their own funds. Furthermore, the Federal Railroad Administration (FRA) has included certain protections in its ARRA grant agreement with the California High Speed Rail Authority to ensure that it finishes the project and delivers the promised benefits to the public. FRA will continue to monitor all grantees, including the California High Speed Rail Authority, until the projects are finished to ensure that grantees have complied with all terms of the Federal grant agreement.

We have notified the California High Speed Rail Authority of the ARRA-related statutory expiration date for outlays or expenditures. Funds associated with the Fiscal Year 2010 Appropriations are no-year funds and will continue to be available for this project. The Department and FRA support the goals and future benefits that high-speed rail will provide for this region. This new generation transportation option will help California as its population continues to grow.

Mr. Diaz-Balart #26

California High Speed Rail

Question: California's draft 2016 financing plan says that the project will pursue additional federal funding. It notes that other projects receive greater than 50 percent Federal funds and indicates that states that voters in California expected a 1/3 federal match. This is a single project, in a single state. What do you say to other states that have rail projects that are waiting on funding?

Answer: The Department has not received any new formal Federal Financing request for the California High-Speed Rail project. We will evaluate future requests based on the availability of funds and the merits of project applications, including eligibility under the applicable program, when they are received. The Department concurs that there is a strong and growing demand for rail funding. The Department's High-Speed Intercity Passenger Rail Program and independent regional, state, and private efforts have created a strong pipeline of planning, environmental, and engineering projects that are now ready for construction. The Obama Administration has consistently requested funding in the annual budget request to Congress to assist in the implementation of these projects, including a comprehensive $6 billion proposal in Fiscal Year 2017 to support high-performance passenger and freight rail projects.

Mr. Diaz-Balart #27

California High Speed Rail

Question: In its financing plan, the California project compares itself to the Northeast Corridor. Since we do not have a lot of money to spread around, I would like to know which is more important to the Nation's transportation system, the Northeast Corridor or California High Speed Rail?

Answer: The Administration fully supports both the California High Speed Rail project and additional investments to the Northeast Corridor, as well as the development of other critical corridors across the country. The Nation faces a number of interconnected transportation challenges, including a growing population, increasing congestion and mobility concerns, and a widening infrastructure deficit as more and more transportation assets fall into a state of disrepair. Rail transportation will play a critical role in accommodating this projected growth and provide an alternative to the Nation's increasingly congested airports and highways. Ensuring that reliable rail transportation is available to the travelling public is a high priority for the Department.

Mr. Diaz-Balart #28

Positive Train Control

Secretary Foxx, the Administration is requesting a significant increase in PTC funding. FY 2017's request is $1.5 billion, compared to $825 million last year, and $875 million in FY 2015. Curiously, this large request comes just after the PTC deadline was extended three years, to 2018.

Question: What is the basis for the $1.5 billion PTC request? Did the Administration or Department undertake some new analysis to justify this increased request level?

Answer: The process for implementing positive train control (PTC) systems includes multiple requirements. As part of the Federal Railroad Administration's (FRA) oversight and monitoring, FRA must at least annually conduct compliance reviews of railroads' actual implementation progress as compared to railroads' revised PTC Implementation Plans; review and approve PTC Development Plans and requests for Type Approvals; review PTC Safety Plans and issue PTC System Certifications; identify industry-wide obstacles to implementation and provide on-going technical assistance; and otherwise confirm compliance with applicable statutes and regulations.

The Department's $1.5 billion request for PTC in FY 2017 consists of $1.3 billion from FRA and $199 million from the Federal Transit Administration (FTA). The FTA request is intended to assist recipients of public transportation funds under 49 U.S.C. Chapter 53 in the financing of PTC systems. The FRA request includes $6.6 million for the Safety and Operations Account and $1.25 billion for PTC implementation grants. The $6.6 million is to review railroads' highly complex Safety Plans, monitor and oversee implementation, and take enforcement action if necessary. The $1.25 billion is for PTC implementation grants to assist resource-constrained commuter railroads, short line railroads, and States and Amtrak (for their proportional share of PTC costs on Amtrak's State-Supported routes that are required due to Amtrak operations on those routes). Commuter railroads lack the funding they need for PTC implementation costs. Many short line railroads also have financial difficulties equipping their locomotives when operating over Class I PTC territory.

The American Public Transportation Association estimates the industry-wide cost of PTC implementation by commuter railroads at approximately $3.5 billion or more. Based on FRA's experience working with railroads so far, FRA expects that there is significant potential for railroads' project costs to escalate as they move into the implementation phases, and therefore the $3.5 billion may be conservative. Accordingly, the Department's request for $1.5 billion in total is essential to ensuring that railroads can implement PTC systems by the statutory deadline established in the PTC Enforcement and Implementation Act of 2015. FRA encourages railroads to develop and install this lifesaving technology as soon as they are able. Making grants available in FY 2017 will assist railroads in installation and reaffirm the need for the railroads to get busy doing this sooner rather than later.

Mr. Diaz-Balart #29

Positive Train Control

Question: Is it possible that commuters and short line railroads can spend $1.5 billion for PTC in FY 2017?

Answer: Grantees are not expected to spend all funding provided in FY 2017 within FY 2017. Capital projects of this complexity can take multiple years to complete. However, the full $1.5 billion is still needed in FY 2017 so railroads can develop project plans, FRA can solicit applications and make grants, and grantees can begin executing their projects. Without full funding in place to complete projects, project sponsors would not know if future funds will be available to complete work started in FY 2017.

Mr. Diaz-Balart #30

Positive Train Control

Question: Technical barriers have caused significant delays. Have all of the technical barriers been overcome such that this funding level can be spent in a single year?

Answer: The requested funding is necessary to sustain the simultaneous development and installation of this revolutionary safety equipment. As noted in the preceding answer, grantees will not be expected to spend all funding provided in FY 2017 within FY 2017; rather, this funding will enable grantees to begin executing projects in FY 2017. With respect to ongoing technical barriers, FRA notes that the path for the first railroads to submit safety plans, install and ensure operability of PTC hardware and software, and begin to operate PTC systems has been filled with obstacles. FRA attributes these struggles to the challenges of incorporating a new, complex technology to old low-tech equipment, at such a large scale.

PTC is a complex system of systems. A system of systems can be thought of as a set or arrangement of systems that are related or interconnected to provide a given capability that, otherwise, would not be possible. In order to try and meet scheduled deadlines, railroads have had to concurrently develop and acquire the system, with predictable results that we see in other ambitious complex system of system programs.

While a number of previously identified technical barriers have been addressed, ongoing testing and gained operational experience has revealed additional changes that will be necessary to ensure safe and reliable system operation. These changes are necessary to compensate for correction of design errors that did not become evident until testing or railroad use reveals it, change in the basic railroad requirements necessitating the redesign of part of the system, and changes in material or manufacturing methods.

Congressman David Joyce
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Joyce #1

Open Skies Agreements

Norwegian Air UK has applied for a foreign air carrier permit. Based on their filing, it is unclear if their current business model is in compliance with existing agreements.

Question: In its application for an air carrier permit, Norwegian Air UK has not provided any information about the employment circumstances of the aircrew that will operate NAUK's aircraft. Will the DOT seek such information to ensure that NAUK's business plan is consistent with the US-Air Transport Agreement?

Answer: The record of the application of Norwegian Air UK (NUK) pending before the Department of Transportation can be found on www.regulations.gov in Docket DOT-OST-2015-0261. A range of parties in addition to NUK – including U.S. labor interests, European labor interests, U.S. carriers, and EU carriers – have submitted pleadings in that formal record, raising substantive legal and regulatory points, both in favor of and opposed to NUK's application, and requiring analysis. The Department is currently engaged in reviewing the record.

U.S. Department of Transportation
Fiscal Year 2017 Questions for the Record
Congressman John Culberson
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Culberson #1

Greenhouse Gas Emission Performance Measures

MAP-21, the Moving Ahead for Progress in the 21st Century Act (P.L. 112-141) made provisions intended to improve commercial motor vehicle safety and funded surface transportation programs at over $105 million for FY13 and FY14. While establishing, recording, tracking, and meeting a nationwide standard for greenhouse gases (GHG) was not required in MAP-21, we have heard that two state DOTs have sent letters to the Federal Highway Administration asking them to expand the performance measures under "on-road mobile source emissions" to include measuring GHG, meaning they are asking the Administration to go beyond the scope of the law in order to support their climate change goals. We are concerned that this would add an additional layer of tracking and reporting which means more time and money to complete projects.

Question: MAP-21 outlined new performance measurement requirements and tasked the U.S. Department of Transportation with developing those measurements in conjunction with the states. One of these new performance measurements would require states to assess air quality via on-road mobile emissions. Some believe we should go a step further and place a performance measure on greenhouse gas emissions. What are your thoughts on expanding performance measures to include greenhouse gas emissions?

Answer: The FHWA is working on a pending rulemaking to establish performance management measures for system performance, freight and the congestion mitigation and air quality improvement (CMAQ) program in accordance with the MAP-21 and the subsequent FAST Act. FHWA has received letters from States, local agencies, other members of Congress, and associations urging us to consider a GHG measure as part of that rulemaking. FHWA is considering this input as we develop the NPRM and will consider public comments on the NPRM as we develop the final rule.

Mr. Culberson #2

Red Tape: Capital Investment Grants

From the U.S. Department of Transportation Budget Highlights for FY2017: "*Streamlining to Get Projects Started more Quickly and Finished Faster*: Ridership on public transportation continues to grow and FTA helped meet that growing demand by working with local partners across the country to build essential public transportation projects. A record number of these essential projects began during the Obama Administration and were made possible through FTA's Capital Investment Grant (CIG) program. Responding to the President's call for greater government efficiency, FTA streamlined its CIG program requirements and cut "red tape" to get projects started more quickly and finished faster. The changes are estimated to cut the delivery time of projects by up to 6 months and save project sponsors almost $500,000 annually."

The Capital Investment Grant program is the federal government's primary financial resource for supporting locally planned, implemented, and operated major transit capital investments. The investments are known as New Starts, Small Starts, or Core Capacity projects. Projects seeking CIG funding must complete a series of steps over several years to be eligible for funding. FTA must evaluate and rate the proposed projects under criteria specified in law, such as mobility improvements, environmental benefits, land use, and cost-effectiveness, at various points during the steps in the process, and the project must obtain at least a medium overall rating to receive funding.

Question: The budget highlights state that the Federal Transit Administration (FTA) "streamlined its Capital Investment Grants program requirements and cut 'red tape' to get projects started more quickly and finished faster. The changes are estimated to cut the delivery time of projects by up to 6 months and save project sponsors almost $500,000 annually." What "red tape" did the FTA cut?

Answer: FTA has taken multiple steps over several years to streamline the process for Capital Investment Grant (CIG) program funds both prior to MAP-21 and after MAP-21. For example, FTA implemented a Simplified Trips on Projects (STOPs) tool several years ago that project sponsors may use at their option to estimate project ridership. Because this tool uses readily available census data and transit network feeds commonly prepared by transit agencies to inform Google maps and other applications, the time required for project sponsors to develop ridership estimates can be as little as two weeks, whereas using a conventional local travel forecasting model can take project sponsors several months or even years.

FTA also developed evaluation measures, for criteria required by law that use readily available data and standardized factors to calculate those measures. To greatly simplify the reporting process for project sponsors, FTA developed reporting templates for project sponsors that automatically populate information used in multiple measures and automatically calculate the evaluation criteria. Previously sponsors had to enter such data multiple times. FTA also significantly expanded "warrants" – ways in which projects can qualify for automatic ratings on the statutory criteria rather than having to submit extensive data and information to FTA. FTA is also tailoring its oversight of CIG projects rather than providing a one-size-fits-all approach, which will help shorten the length of time it takes FTA to complete its reviews of smaller and less complex projects.

Mr. Culberson #3

Criteria for Competitive Port Planning Grant Pilot Program

The U.S. maritime ports are critical links in the U.S. domestic and international trade supply-chain, serving as hubs where cargoes are transferred between ocean going vessels, barges, trucks, trains and pipelines. Over the last several years, the Martine Administration has seen that effective planning is holding back ports from building critical infrastructure projects. The StrongPorts Program is designed to support these efforts to improve and modernize infrastructure in ports throughout the United States and ensure they are capable of meeting our current and future freight transportation. In an effort to support this program, the Administration has proposed a competitive grant program to provide 15 planning grants, at a cost of $3 million, to augment the efforts currently underway to help ports with planning activities.

Question: The budget request for the Maritime Administration includes $3 million to fund a pilot program for competitive port planning grants. What criteria will be used to select the projects receiving grants?

Answer: The purpose of the Strong Ports Program is to fund a pilot program of competitive port planning grants. These planning grants will be an important tool to help ports, states and regional planning bodies develop more investment grated strategies that are both practical and that attract Federal, State, local and private financing. If funded at the requested amount of $3 million it would fund about 15 planning grants and an estimated $200 thousand each (plus about $40 thousand local match each or about 20 percent) while significantly raising port awareness of improved planning opportunities. It is anticipated that the majority of applicants will be medium to small sized ports that currently lack funds to create master plans or major project plans.

If funded, applicants to this program will be encouraged to review the Port Planning and Investment Toolkit (strongports.gov/toolkit) that discusses best practices in developing investment quality plans to attract financing and successful elements of a financing plan. Successful applicants will need to provide at least a 20 percent match for the Federal funds awarded.

U.S. Department of Transportation
Fiscal Year 2017 Questions for the Record
Ranking Member David Price
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Price #1

"Chameleon" Carriers

Some motor carriers attempt to evade federal safety requirements by registering with DOT under a new identity. Such carriers are known as "chameleon" carriers. Studies indicate chameleon carriers present high safety risks and are three times more likely than other carriers to be involved in severe crashes.

In 2012, the Federal Motor Carrier Safety Administration (FMCSA) concurred with several recommendations in GAO Report 12-364 and agreed to expand its existing vetting process and develop a "risk-based automated screening methodology" to identify "chameleon" freight carriers applying for DOT operating authority. Previously, FMCSA had only vetted passenger and household goods carriers for chameleon characteristics. In a 2013 report to Congress, FMCSA indicated that implementation of the new vetting methodology would occur sometime in 2015.

Question: Please provide an update on FMCSA's progress in developing and finalizing the new vetting methodology for chameleon carriers. When will the new methodology be complete?

Answer: On February 19, 2016, the Federal Motor Carrier Safety Administration (FMCSA) launched an update to the Unified Registration System (URS) that electronically screens all new applications for carriers that are trying to evade enforcement action by applying as a new company (reincarnated carrier).
This release incorporates an algorithm and corresponding software for an automatic risk-based assessment of each new applicant. The Utility for Risk-based Screening and Assessment (URSA) tool calculates a risk potential based on the likelihood that an applicant for operating authority is attempting to reincarnate, or otherwise obtain authority illicitly. Prior to this release, the FMCSA was only screening a small percentage of new applicants (Household Good and Passenger Carriers). However, with the URSA tool, the FMCSA is now screening 100 percent of new applicants seeking operating authority.

Mr. Price #2

"Chameleon" Carriers

Question: What factors have prevented FMCSA from adhering to the original timeline?

Answer: The implementation of the first phase of the URS took place on December 12, 2015. While the original intent was to also implement the new vetting technology in 2015, this new capability had to be carefully integrated into URS and was subsequently released approximately 60 days later on February 19, 2016. The additional time was required to integrate two highly complex Information Technology systems into one unified system.

Mr. Price #3

"Chameleon" Carriers

Question: Does the agency require additional resources to implement the new vetting process?

Answer: FMCSA requested $5.9 million for FY 2017 for the Registration and Safety Information Program. $1.7 million of this request is to resource additional FTEs for the increased vetting load resulting from the screening of 100% of all applicants, versus only 4.4% previously, using the URSA. By vetting and then building enforcement cases to reject illicit applications for registration, the FMCSA will prevent high risk carriers, with unsafe drivers and poorly maintained equipment, from obtaining registration and/or operating authority and from entering or re-entering the industry as required by MAP-21 legislation (Public Law 112-141, July 6, 2012). Preventing high risk trucks and buses from traversing America's highways will decrease accidents, reduce injuries, and save lives.

Mr. Price #4

Drowsy Driving

In 1996, the National Highway Traffic Safety Administration (NHTSA) embarked on a congressionally-mandated effort to develop educational countermeasures to effects of fatigue, sleep disorders, and inattention on highway safety. NHTSA convened The Expert Panel on Driver Fatigue and Sleepiness in collaboration with National Center on Sleep Disorders Research (NCSDR). The panel recommended a series of drowsy driving countermeasures and identified various priorities for an educational campaign to warn the public about the hazards of drowsy driving.

In 2014 there were 846 fatalities (2.6% of all fatalities) recorded in NHTSA's FARS database that were drowsy-driving-related. Other studies have inferred from existing crash data that as many as 5,000 people died in drowsy-driving-related motor vehicle crashes across the United States last year.

Question: Does NHTSA intend to build on its previous efforts to combat drowsy driving by utilizing available funding to conduct and support state-based public information activities about the danger of driver fatigue?

Answer: Yes, NHTSA intends to build on its previous efforts to combat drowsy driving by using available funding to conduct and support a variety of research and program activities that will not only support state-based public information activities but will also contribute to national efforts to address this dangerous behavior.

Question: If yes, please briefly describe these planned activities. If not, why not?

Answer: On November 4th and 5th, NHTSA held a national meeting to address drowsy driving. This meeting led to the recently published "Drowsy Driving Research and Program Plan" that will guide NHTSA's efforts over the next several years. Those efforts include quantifying the impact of drowsy driving, public awareness and education, policy development, identifying high-risk populations, and research in vehicle technology and infrastructure. The NHTSA plan, which includes project details, is available on our web site (http://www.nhtsa.gov/staticfiles/nti/pdf/DrowsyDriving_StrategicPlan_030316.pdf).

Mr. Price #5

Seat Belts on School Buses

Last year, the National Association of State Directors of Pupil Transportation Services (NASDPTS) reversed their longstanding position on school bus seat belts, indicating support for the installation of seat belts so long as school districts could absorb the extra cost. Administrator Rosekind of NHTSA has also announced that he believes every child on a school bus should have a three-point seat belt.

Question: What steps is NHTSA currently taking to address this key safety issue and the challenges associated with installing seat belts on school buses nationwide?

Answer: At the National Association of Pupil Transportation annual conference in November 2015, Administrator Rosekind encouraged school transportation officials to find ways to ensure that school bus occupants have access to lap and shoulder seat belts. The Administrator acknowledged the economic challenges faced by some school districts but pointed out that the protection of children should be a very high priority in resource allocation decisions. Many school transportation providers responded very favorably to this challenge. Since November at least ten states have taken actions to install seat belts on school buses.

Mr. Price #6

Seat Belts on School Buses

Question: How does NHTSA plan to work with key stakeholders on this issue?

Answer: NHTSA plans to work with stakeholders to identify strategies that have been effective in overcoming obstacles to lap and shoulder belts on school buses. On March 24, the Agency convened a meeting of school transportation officials from seven states which have taken legislative action regarding seat belts on school buses. These state officials have offered to provide details on how they addressed economic issues and other considerations including implementation, monitoring, compliance and training. NHTSA will document these strategies and share lessons learned with others

Mr. Price #7

Seat Belts on School Buses

Question: Does NHTSA intend to initiate a rulemaking to require seat belts on school buses?

Answer: Not at this time. However, NHTSA continues to evaluate the safety performance and data of school bus vehicle safety and will leverage action as appropriate.

Mr. Price #8

Truck Safety

In the past few years, we've seen an attempt to allow heavier truck on our nation's highways. These proposals have been done on a state-by-state basis.

Question: With respect to the growing patchwork of increased truck weights, what is the impact on safety and the condition of roads?

Answer: The Comprehensive Truck Size and Weight Limits Study conducted in 2013 and 2014 included an analysis of various potential impacts of heavier trucks, including safety, bridge and pavement impacts. The research results by vehicle type are available in the technical reports available to the public.
http://www.ops.fhwa.dot.gov/freight/sw/map21tswstudy/technical_rpts/index.htm

In general, heavier axle loads cause increased pavement lifecycle costs and heavier gross vehicle weights cause more bridges to need strengthening and/or replacement. Ultimately, however, the Department was not able to draw further national-level conclusions about the impacts of heavier trucks, due to significant data limitations.

Mr. Price #9

Truck Safety

Last year's bill also attempted to permit trucks hauling twin 33-foot trailers to be used on our interstate system.

Question: Does the evidence indicate that this configuration of trailers is safe?

Answer: The Department does not have crash, citation and violation, or vehicle inspection data available for the twin 33-foot semitrailer-trailer vehicle type, as this configuration has only recently been introduced in operation in the U.S., and only in very limited areas.

However, modeling this configuration in the vehicle stability and control area showed that it did not perform as well as the control vehicle, a twin 28-foot trailer type, on slow speed curves.

The vehicle stability and control data was developed using the commercially available TruckSims™ model. Using this model the following five maneuvers were simulated: low speed off-tracking (trailer following a different path than the tractor), high speed off-tracking, straight line braking, braking in a curve, and avoidance maneuver. Additionally, the Federal Motor Carrier Safety Administration (FMCSA) and the Oak Ridge National Laboratory (ORNL) tested a 3S-2 tractor flatbed semi-trailer configuration under various loading conditions (various gross vehicle weight conditions) with regard to stopping distances. Results from the FMCSA/ORNL project were generally consistent with results produced in the computer simulation analysis. Details on the analysis for vehicle stability and control can be found in Chapter 2 and Appendix C of the Highway Safety and Truck Crash Comparative Analysis Technical Report. http://www.ops.fhwa.dot.gov/freight/sw/map21tswstudy/technical_rpts/index.htm

Mr. Price #10

Truck Safety

Question: What would the impact of longer trucks be on safety?

Answer: Due to significant data limitations, particularly in the safety technical areas, the Department can draw no national inferences regarding these alternative configurations.

Mr. Price #11

Restoration and Enhancement Grants

The budget request includes $20 million in funding for Restoration and Enhancement Grants. These new grants would provide operating assistance for intercity passenger rail service.

Question: What kinds of routes would be eligible for the grants? Do you have specific locations in mind?

Answer: The Restoration and Enhancement Grants program was authorized in Section 11303 of the FAST Act. Any intercity passenger rail route that is initiated, restored, or enhanced is eligible under the provisions of the FAST Act. The Department has not predetermined any routes or recipients for potential awards. However, the FAST Act directs the Department to provide priority consideration to applications to restore service on routes formerly operated by Amtrak, including the service between New Orleans, Louisiana and Orlando, Florida that was suspended in 2005 due to damages caused by Hurricane Katrina.

Mr. Price #12

Restoration and Enhancement Grants

Question: How would the Department select the routes that receive these grants?

Answer: The FAST Act requires the Secretary of Transportation to award Restoration and Enhancement Grants on a competitive basis. If Congress were to appropriate funding for the program in Fiscal Year 2017, the Department envisions issuing a notice of funding opportunity (NOFO) to describe the program requirements and solicit applications for funding. Applications would then be evaluated and selected based on the statutory criteria and any other factors the Department includes in the NOFO.

Mr. Price #13

Restoration and Enhancement Grants

Question: Would the operating subsidy be ongoing or limited?

Answer: The FAST Act limits operating assistance under the Restoration and Enhancement Grants program to no more than three years for any individual route, and operating assistance cannot be renewed after the three year period concludes. Operating assistance is also intended to decrease over the course of the three years, with grants capped at no more than 80 percent of the projected net operating costs for the first year, 60 percent for the second year, and 40 percent for the third and final year. Further, the FAST Act prohibits no more than six operating grants from being active at any given time.

Mr. Price #14

Autonomous Vehicle Research

DOT's budget request includes $200 million in mandatory funding for autonomous vehicle research.

Question: How is this research different than the work that industry is currently doing on autonomous vehicles?

Answer: This work would be collaborative and complementary to what industry is already doing, and would involve many entities, including cities and municipalities. Simply put, while industry is focused on how to make the technology work, part of this funding would support real world testing by multiple manufacturers and multiple operating scenarios to develop such things as driver training needs, test procedures to evaluate system performance and user acceptance, to name a few. In addition, it covers additional stakeholders like the States, insurance companies, and others as we look to work across modes and on the international stage.

Given that Europe and Japan have invested significantly in vehicle automation research and the Chinese manufacturer Baidu has announced plans to begin testing its highly automated vehicle in the U.S., the requested investment is needed to help ensure that the U.S. maintains its competitive lead in this technology. U.S. vehicle manufacturers and companies like Google are seeking further opportunities for deploying highly automated vehicles on the public road to gain the additional performance data and public reactions and feedback necessary to aid in further refining the technology of those vehicles.

Automated safety technologies present tremendous, fast-evolving opportunities for saving lives and avoiding injuries, saving time, and saving fuel. NHTSA has requested $200 million in FY 2017 to realize those opportunities, by facilitating and accelerating the deployment such life-saving automated safety technologies. The requested $200 million will fund work with state partners, manufacturers, and other stakeholders to research and develop a national policy framework, operational guidance, a model state policy, tests and standards, and other policies and procedures necessary for the safe deployment and operation of automated vehicles and technologies. NHTSA will fund multiple pilot deployments to test highly automated light- and heavy-duty vehicles across the country, and to research different operational approaches to automation. The Agency expects to fund large-scale deployment pilots to test connected vehicle systems in designated corridors throughout the country; and to work with industry to ensure a common multi-state interoperability framework for connected and automated vehicles.

To support these activities and keep pace with highly automated vehicles and vehicle cybersecurity, the FY17 budget request also seeks $55.6 million for Vehicle Electronics and Emerging Technologies. This program will test and ensure the safe deployment of increasing levels of vehicle automation and vehicle cybersecurity. The program will conduct research to support Agency decisions and safety requirements in the areas of highly automated vehicles and other emerging technologies, as well as electronics systems safety, including vehicle cybersecurity. Europe and Japan have invested significantly more in vehicle automation research and this investment will help to ensure that the US maintains its competitive lead in this technology.

Mr. Price #15

Autonomous Vehicle Research

Question: How would large-scale autonomous vehicle deployment improve safety?

Answer: Large-scale testing allows the technology to be exposed to a wider range of operating scenarios to further support the safe deployment of autonomous safety technologies. If evaluations are only done on a test track or via computer simulation, important conflict scenarios with other automated vehicles and vehicles driven by humans could be missed. These scenarios could lead to preventable crashes, dampening consumer confidence in the technology, and delaying introduction which would deny the safety benefits promised by this technology. Large-scale testing will also give manufacturers, regulators, suppliers, and many others the ability to assess a wide range of operating scenarios, environments, driver acceptance, and system performance.

Mr. Price #16

Cybersecurity

The budget request includes $15 million for cybersecurity enhancements. Last year's enacted bill provided $8 million.

Question: How will additional resources in FY 2017 further the goal of cybersecurity at DOT?

Answer: Reducing the appropriation to $8M would have catastrophic impacts on the Department, compromising the operation of cost effective, enterprise-level common capabilities, reducing the visibility of risks and weaknesses, impairing the effectiveness of response and remediation, showing clear regression in Cross Agency Priority (CAP) goals, and exposing the Department to certain unauthorized access and compromise.
The following is a prioritized list of funding requests OCIO believes are absolutely necessary over the $8M level in the President's request:

- $3 million is required to supplement the Continuous Diagnostics and Mitigation (CDM) program. At the $8M level, we would be able to fund compliance monitoring, secure remote access, and Trusted Internet Connection (TIC) at the current levels, however the Department would fall severely behind the CDM goals, lack full visibility into activity on DOT networks, and be unable to correct identified weaknesses. DOT has successfully deployed Phase 1 in line with government-wide goals. Following the compromise of OPM's personnel records, the Administration has directed that Phase 2 and Phase 3 be accelerated. DOT would not be able to comply with these requirements. The additional $3.5M would allow the Department to extend CDM to cover additional assets that currently present a vulnerability. It would also fund portions of the program that DHS can no longer afford, including implementation support for behavioral analytics which help us to identify unauthorized or anomalous activity on our network.

- $4 million is required to subscribe to Managed Trusted Internet Protocol Services (MTIPS) so DOT employees can continue to access the internet. The funding estimate is based on DOT's current bandwidth usage. MTIPS would solve two significant security vulnerabilities at DOT: DOT does not have the ability to assess encrypted traffic for the presence of malicious activity. We are also unable to detect the theft and removal of sensitive Federal and agency information from the Department's networks and systems. Both vulnerabilities present a significant risk for DOT. In short, DOT can currently see large amounts of data traveling over the network, but we have no idea what the data is, where it is going, or who is accessing it.

Mr. Price #17

Cybersecurity

Question: What have been some successes in this area and what challenges remain?

Answer: DOT has performed very well in the Cybersecurity Cross Agency Priority (CAP) goals, showing significant progress over the last year. Specifically, DOT led Cabinet agencies in the area of Personal Identification Verification (PIV) cards.
DOT also has made great progress on another CAP goal, identifying and assessing its hardware and software assets, covering nearly all assets on agency networks. Additional funding for compliance monitoring, secure remote access, and Trusted Internet Connection (TIC) will help DOT achieve Continuous Diagnostics and Mitigation (CDM) goals, improve DOT network activity and correct identified weaknesses.
Funding is needed to subscribe to Managed Trusted Internet Protocol Services (MTIPS) so DOT employees can continue to access the internet securely. MTIPS would provide increased visibility into information entering and leaving Departmental networks, and resolve significant security vulnerabilities at DOT.

Mr. Price #18

Cybersecurity

Question: How does the Department ensure that contracts and procurements further cybersecurity? Do procurement vehicles include specific security goals? For instance, how would the Department ensure that a building climate control system procurement met cybersecurity measures?

Answer: As part of DOT's response to the recent Cybersecurity Sprint goals, the Office of the Chief Information Officer (OCIO) coordinated with the Office of the Senior Procurement Executive (OSPE) and Operating Administrations to institute a review of Information Technology (IT) contracts associated with sensitive and critical systems.
The Department currently leverages the Acquisition Strategy Review Board (ASRB) to review all contracts in excess of $20 million, high-risk acquisitions above $10 million, or those deemed critical to the Department.

Additionally, the DOT CIO and the Assistant Secretary for Budget and Programs are jointly working on a process for the DOT CIO to review and approve the IT spend across the Department in line with the Federal Information Technology Reform Act (FITARA).

Mr. Price #19

Charlotte, NC TIGER Grant

Question: What is the process for selecting TIGER grants and on what merits was the Charlotte, NC project selected?

Answer: Eligible TIGER applications receive a three phrase review, consisting of a Technical Evaluation, Tier 2 Analysis (project readiness and economic analysis), and Senior Review. Technical Evaluation Teams provide qualitative ratings to each eligible application based on how well the project aligns with selection criteria. All projects that receive a Highly Recommended rating advance for consideration of economic analysis and project readiness. The Senior Review Team determines which project to advance to the Secretary, from which the Secretary selects projects for award.

The Charlotte Gateway Station project was selected as a highly recommended project, consistent with the TIGER review process, because the proposed project aligns with selection criteria related to quality of life, economic competitiveness and environmental sustainability. The track work will reduce conflict between passenger rail service and the Norfolk Southern freight trains and enable additional arrival and departures at the planned station, as new intercity passenger rail services are introduced. Related railroad signal infrastructure will manage the movement of freight and passenger trains in the vicinity of the planned station. The more central location of the planned station will provide better access for rail passengers to centers of employment and education, and the expanded station facility will encourage more travelers to use passenger rail ultimately enhancing the quality of life of the traveling public. The relocation of intercity services to Center City will put passengers within one-half mile of North Carolina's largest employment center-home to over 100,000 jobs contributing to the economic competitiveness of the region.

U.S. Department of Transportation
Fiscal Year 2017 Questions for the Record
Congressman Mike Quigley
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Quigley #1

Creating Local Jobs Through Infrastructure Investments

Investing in infrastructure creates jobs, but we need to do a better job of ensuring that investments in our neighborhoods translate to jobs for residents in those neighborhoods. In Chicago, we passed a local hiring ordinance that has already added 300 construction jobs for Chicago's residents. I know you have piloted letting cities add local hiring provisions to contracts for Federal transit and highway dollars this past year.

Question: What results have you seen from that program to date? And are you planning to make that program permanent soon?

Answer: Under the pilot program, DOT has approved applications for 9 highway construction projects to utilize hiring preferences and an application for 4 separate procurements of rolling stock. As part to the pilot program, those entities will provide data to DOT regarding the effects those preferences may have had on competition. DOT intends to utilize the data from the pilot program in determining the next steps with respect to the pilot program. However, DOT does not yet have the data from those projects. In order to provide FHWA and FTA recipients and subrecipients flexibility to continue operating under the pilot program while DOT awaits the data from these projects and to provide DOT with data from additional projects, Secretary Foxx recently extended the pilot program for one additional year. (See https://www.transportation.gov/regulations/textension-dot-contracting-initiative-pilot-program)

We note that the Consolidated Appropriations Act, 2016, Public Law 114-113, (FY 2016 Appropriations Act) contains provisions providing recipients and subrecipients flexibility to utilize hiring preferences for transit projects. Section 415 continues the provision from the FY 2015 Appropriations Act prohibiting the FTA from implementing, administering, or enforcing restrictions on geographic hiring preferences for construction hiring, and Section 192 authorizes DOT-assisted contracts under titles 49 and 23 of the United States Code to utilizing geographic, economic, or other hiring preferences if the grant recipient makes certain certifications.

Mr. Quigley #2

Creating Local Jobs Through Infrastructure Investments

Question: The CTA has included a U.S. Employment Plan in its ongoing procurement of 400 next generation railcars, which will help ensure their investments create jobs here in America. Could you tell us a little more about the U.S. Employment Plan and why it is so important?

Answer: There are many innovative ideas and approaches in using transportation funds to create jobs. The U.S. Employment Plan, developed by the Jobs to Move America Coalition is only one example of an original approach to using transportation funds to create jobs The U.S. Employment Plan is a contractual provision that provides incentives for companies to create American jobs, locate facilities in the United States, and generate opportunities for unemployed workers through recruiting and training efforts. DOT has approved the requests from various grant recipients to use the U.S. Employment Plan for the procurement of rolling stock for the Los Angeles Metropolitan Transportation Agency (for both light rail vehicles and buses), Amtrak, the Chicago Transit Authority, the Maryland Department of Transportation, and the California High Speed Rail Authority. Each recipient tailored the U.S. Employment Plan to meet its specific needs for these projects. For more information about the U.S. Employment Plan, you may visit the Jobs to Move America Coalition Website at http://jobstomoveamerica.org/resources/#employment.

The Executive Office of the President's Council of Economic Advisers recently estimated that every $1 billion invested in Federal highway and transit infrastructure would support 13,000 jobs. It is important to help communities use innovative ideas and approaches to leverage their transportation funds into jobs. The U.S. Employment Plan is an example of one approach that DOT recipients have used to leverage their transportation funds into jobs. DOT recipients may develop other innovative approaches to doing so. Should recipients find that FHWA and FTA contracting restrictions are a barrier to utilizing such approaches, DOT has established the pilot program to enable recipients to move forward with those ideas on an experimental basis. We are also working closely with employers in the transportation industry to partner with State and local workforce boards, community colleges, unions, technical education providers, and others, to align skills training with transportation job demand at the State and local levels.

Mr. Quigley #3

Rail Congestion

The FAST Act's new competitive freight program is a great opportunity to advance the CREATE program, which is vital to improving rail congestion in Chicago.

In my state of Illinois, freight volumes and congestion are heavily concentrated in the Chicago region. DOT has a strategic interest in making sure that states direct their freight formula dollars to the projects that will most benefit the national freight network.

Question: What can Chicago do to make this project as competitive as possible?

Answer: The Nationally Significant Freight and Highway Projects program, which the Department calls FASTLANE grants, seeks to provide financial assistance for projects of national or regional significance. The program provides dedicated, discretionary funding to address critical freight issues affecting our transportation system, including reducing congestion and bottlenecks and improving the efficient movement of people and freight. We know from TIGER that CREATE brought private and public stakeholders together to improve rail and vehicular movement throughout Chicago, and I encourage CREATE to submit a FASTLANE grant application.

In addition to being evaluated for statutory requirements, projects seeking FASTLANE Grants must demonstrate the extent to which the project demonstrates economic, mobility, safety, and community outcomes. FASTLANE projects will also be evaluated for Partnership and Innovation and cost share. Applicants should engage with a broad coalition of stakeholders to identify needs to ensure state and regional priorities are planned and funding is dedicated to advance critical freight projects. An application that includes written support from a multimodal state freight advisory committee is one way to demonstrate that the key stakeholders are cooperating in the prioritization and funding of critical projects.

Mr. Quigley #4

Rail Congestion

Question: Given the flexibility that states have when it comes to freight formula funds, how will DOT ensure that states are spending these federal funds where the problems are actually concentrated?

Answer: The FAST Act requires that the money be directed to the National Highway Freight Network, which was derived in part from data that reflected the greatest truck freight activity in the nation. By focusing funds on this network, states can alleviate bottlenecks, modernize their operations and bring facilities into a state of good repair to improve goods movement. In addition, the requirements in FAST that allow for obligation of formula funding after December 4, 2017, direct that state freight plans should include an analysis of congestion and bottlenecks, and the law bolsters this focus through freight performance measurement requirements. Engagement with the private sector on planning and performance is also useful to ensure investments identified are most beneficial to the economy and supporting jobs.

DOT is providing support to States and MPOs as they develop freight plans, measure freight performance, and coordinate with the private sector. We have released guidance on the National Highway Freight Program and we are already seeing states and MPOs developing strong state freight plans and doing innovative work with the private sector such as evaluating border crossing efficiency and data development to identify investment opportunities to reduce bottlenecks in supply chains.

Mr. Quigley #5

Rail Congestion

Question: Will DOT work to secure new sources of data regarding freight rail traffic to support state and metropolitan planning as it has recently done on the highway side?

Answer: DOT is developing new data opportunities. Recently, FHWA worked with key industries in retail, agriculture, manufacturing and food processing (Target, Chrysler, General Motors, Perdue and Panasonic) to understand freight movement from origin to destination – or the "supply chain." DOT (FHWA) piloted a freight fluidity project with industry representatives to obtain and develop rail, port, air and truck travel time data. This enables DOT to identify bottlenecks for major U.S. supply chains and evaluate economic impact of delay.

DOT is now implementing a freight fluidity system at the national level to measure multi-modal freight performance and will be supporting regional implementation of multi-modal data and analysis tools in the next year. These efforts will help to improve on multi-modal data and support state and MPO planning.

DOT continues to work with the private sector and other agencies on developing different data sources such as by using transaction data or "big data" to supplement current freight data.

Mr. Quigley #6

Rail Congestion

The FHWA made a call for regionally significant projects across the country but never chose which projects USDOT's believe are nationally-significant chokepoints or bottlenecks for various modes.

Answer: The Department received many examples of projects that stand to provide regional or national benefits but was not in a position to choose among these from a limited survey instrument. The new federal funding programs in the FAST Act offer broad eligibilities for freight and significant opportunity to address key problem areas in the system. At this time, DOT is fully engaged in implementing the new Nationally Significant Freight and Highway Projects program, which we call "FASTLANE." In addition, FAST requires that each state's State Freight Plan will include a fiscally constrained list of priority projects that would address significant freight choke points in their State or region and that may have nationally significant impacts.

Question: When will DOT release this list and does USDOT have any plans for selecting specific projects or geographic locations for nationally-significant freight choke points in the National Freight Strategic Plan or other documents?

Answer: The survey for the Projects of Regional and National Significance had eligibilities that extended to transit and passenger rail and did not specifically focus on freight projects or on bottlenecks and chokepoints. Furthermore, a survey is not a comprehensive analysis of these issues nor is it robust enough to allow for prioritizing of the projects based on survey responses. The FAST Act repealed provisions pertaining to the Projects of Regional and National Significance, however, the Department continues to engage in research using new and updated data sets to look at areas of congestion for national-level plans and maps. Such lists and data analysis may be included in such products as the freight conditions and performance report or the National Freight Strategic Plan. Additionally, the Department expects that each States' State Freight Plan will include a fiscally constrained list of priority projects that would address significant freight choke points in their State or region and that could have nationally significant impacts.

Mr. Quigley #7

Travel & Tourism Infrastructure Advisory Board

The National Travel and Tourism Infrastructure Advisory Board authorized in the FAST Act is a great opportunity for the transportation and tourism industries to help DOT identify current barriers to passenger mobility and develop a national strategy to improve travel in the U.S.

Question: What are your plans to get this Advisory Board established?

Answer: DOT is moving to establish a Travel and Tourism Advisory Committee created under the FAST Act in order to provide recommendations to the Secretary to improve the U.S. intermodal transportation system to facilitate travel and tourism.
At this time, we are in the planning phase of implementation and we have not yet determined the size or composition of the committee. We expect to file a charter for the advisory committee shortly that will outline more of the specific details about the advisory committee.

Mr. Quigley #8

Travel & Tourism Infrastructure Advisory Board

Question: What are your goals for this Board?

Answer: The Obama Administration released a National Travel and Tourism Strategy to promote domestic and international travel, which included recommendations for DOT to maintain and improve transportation infrastructure to support tourism development. Work to implement these recommendations is underway.

The FAST Act provision builds upon the goals and recommendations of the National Travel and Tourism Advisory Board, focused on improving the US transportation infrastructure to enable our transportation network to accommodate the projected growth in travel and tourism. The advisory committee will provide information, advice, and recommendations on matters relating to the role of intermodal transportation in facilitating passenger mobility and tourism. With the input of this new advisory committee, the Department will develop a strategic plan over the next three years that both addresses the wide range of barriers to travel performance and also identifies strategies and best practices for improvement. This is an important opportunity to assess the current network and identify specific improvements that will facilitate travel and enable more tourists – both domestic and international – to experience the many remarkable and exciting destinations across our nation.

Mr. Quigley #9

Bike and Pedestrian Safety

I'm a big proponent of bicycling and have pushed for increased safety standards when it comes to bikes and pedestrians.

Question: Can you provide some info on what will be included in the new non-motorized safety performance measure? And when will that be coming out?

Answer: On March 15, 2016, the FHWA published the Highway Safety Improvement Program (HSIP) and the Safety Performance Management Measures (Safety PM) Final Rules in the Federal Register. These rules become effective on April 14. The HSIP Final Rule updates the existing HSIP requirements under 23 CFR 924 to be consistent with MAP-21 and the FAST Act, and to clarify existing program requirements. The Safety PM Final Rule adds part 490 to title 23 of the CFR to implement the performance management requirements under 23 U.S.C. 150, including the specific safety performance measure requirements for the purpose of carrying out the HSIP to assess serious injuries and fatalities on all public roads.

The Safety PM Final Rule requires States and MPOs to set targets for five performance measures, including one for the total combined number of non-motorized fatalities and non-motorized serious injuries. This performance measure defines non-motorists, consistent with 23 U.S.C. 217(j), to include those transportation system users who are not in or on traditional motor vehicles on public roadways, including persons traveling by foot, children in strollers, skateboarders (including motorized), roller skaters, persons on scooters, persons in wagons, persons in wheelchairs (both non-motorized and motorized), persons riding bicycles or pedalcycles (including those with a low-powered electric motor weighing under 100 pounds, with a top motor-powered speed not in excess of 20 miles per hour), persons in motorized toy cars, and persons on Segway-style devices.

The HSIP Final Rule is available here:
https://www.federalregister.gov/articles/2016/03/15/2016-05190/highway-safety-improvement-program

The Safety PM Final Rule is available here:
https://www.federalregister.gov/articles/2016/03/15/2016-05190/highway-safety-improvement-program

Mr. Quigley #10

Bike and Pedestrian Safety

Question: Is NHTSA testing new active safety technologies on bicyclists and not just pedestrians and other cars?

Answer: Automatic emergency braking systems is a game changer technology that has the potential to prevent or mitigate a large number of crashes; including those with bicyclists. Funding requested by NHTSA in the 2017 budget would allow research to assess the effectiveness of this active safety technology. NHTSA plans to build upon test procedures and cycle mannequins being developed by other researchers and countries to evaluate the performance of automatic emergency braking for bicyclists. This activity builds upon our recently completed work involving automatic emergency braking systems that react to vehicles.

NHTSA currently classifies safety equipment purchased for traffic safety educational trainings such as bike helmets and lights, car seats and reflective vests as "promotional material" and prohibits giving out such material at DOT events like bike rodeos for children and car seat demonstrations.

Mr. Quigley #11

Bike and Pedestrian Safety

Secretary Foxx has a new Chief Opportunities Officer that works specifically on equity issues and ensuring that transportation is the ladder of opportunity it can be.

Question: Does the work of the COO include equity training for police officers in the enforcement training under section 405 (for bike/ped safety priority as for other priority safety programs)?

Answer: Section 405 National Priority programs include a grant program for nonmotorized safety (bike/ped safety). These grants are available only to States. While the qualifying States may spend funds on the training of law enforcement officials regarding State laws applicable to pedestrian and bicycle safety, their expenditures will be tied to addressing identified problems in their States.

The work of the Department's new Chief Opportunities Officer does not currently include training for police officers.

Mr. Quigley #12

Bike and Pedestrian Safety

NHTSA currently classifies safety equipment purchased for traffic safety educational trainings such as bike helmets and lights, car seats and reflective vests as "promotional material" and prohibits giving out such material at DOT events like bike rodeos for children and car seat demonstrations.

Question: What's the reasoning behind the current ban and will you work with me to reverse the ban so that safety equipment such as bike helmets, can both be purchased for education classes and given out to participants at the end of the education programs?

Answer: NHTSA is currently reviewing eligibility requirements for the purchase and distribution of such items with highway safety grant funds. The Agency's review aims to ensure that appropriately identified highway safety needs in the States can be served in a manner that is consistent with the requirements of the grant program statute and other applicable Federal law and regulations. We anticipate that the review will be completed in the near future. Following completion of the review, NHTSA staff would be pleased to brief your staff on the results of that review.

Mr. Quigley #13

Green Asphalt

Secretary Foxx, as you may know, I strongly support utilizing recycled materials – such as recycled asphalt shingles – in asphalt projects. By putting old asphalt shingles to good use instead of sitting around forever in Illinois landfills, it would be good for the environment, and it would be good for jobs in Illinois. I co-led a letter with a number of my colleagues to FHWA on this last year on a pending policy change on this.

Question: What is the status of this new policy guidance that FHWA is working on with AASHTO and will it strongly encourage the use of recycled materials in asphalt projects as we have recommended?

Answer: Current FHWA policy strongly recommends that recycled materials receive first consideration in highway uses. This policy has been very effective based on the increased use of reclaimed asphalt pavements and recycled asphalt shingles for highway projects. (http://www.fhwa.dot.gov/legsregs/directives/policy/recmatpolicy.htm) FHWA is currently working on recommendations to improve the existing American Association of State Highway and Transportation Officials (AASHTO) standard on the testing and use of Reclaimed Asphalt Shingles (RAS) in asphalt pavements.

This is not a FHWA standard; rather, FHWA is providing collective technical input for possible revisions to the national standard for RAS. AASHTO is the owner of the standard which States can choose to follow or modify.

The proposed revision to the AASHTO standard for RAS will be on the agenda for discussion and recommendations at the Asphalt Expert Task Group meeting planned for the last week in April, 2016. Furthermore, the draft standard will be available for input/review and also extensive discussion within the AASHTO's Subcommittee on Materials (August, 2016) prior to the State highway agencies voting to adopt.

In addition to potential AASHTO standard recommendations for RAS, FHWA has been active in other related activities. These activities include co-sponsoring the 7th Annual RAS Conference in Chicago, IL in November 2015 and supporting two new research publications on RAS usage. These two publications are: "Best Practices for RAP and RAS Management" http://goaspha.lt/QIP129E and, "Characterization of Asphalt Binder Extracted from Reclaimed Asphalt Shingles" http://www.trb.org/Pavements/Blurbs/173888.aspx.

Mr. Quigley #14

Open Skies Enforcement

Congress has been very clear: we need to see stronger enforcement by DOT of the Open Skies Agreement to ensure U.S. carriers and U.S. workers are not at a competitive disadvantage

Question: Can you provide us with an update on what the Administration is doing to address this growing problem?

Answer: The Department takes seriously the competition concerns raised by our airlines and will thoroughly review them. Yet, we remain committed to the Open Skies policy which has greatly benefitted the traveling public, the U.S. aviation industry, American cities, and the broader U.S. economy through increased travel, trade, and job growth.

Mr. Quigley #15

Open Skies Enforcement

Question: Among the three agencies is DOT leading the effort to address the alleged subsidies received by Emirates, Etihad and Qatar?

Answer: Regarding the specific claims that Gulf carriers are benefitting from government subsidies that are distorting the market, the Administration has formed an interagency working group to thoroughly analyze and examine the allegations raised. The Department takes seriously the competition concerns raised by U.S. airlines and is working together with both the Departments of State and Commerce to address these allegations.

Mr. Quigley #16

Open Skies Enforcement

Question: When do you anticipate a decision being made as to how DOT, State and Commerce will address the alleged subsidies? When would you like to have a decision by?

Answer: The Department is closely coordinating and consulting with our interagency partners, including officials at the Departments of State and Commerce throughout this process, however, no decisions have been made regarding the next steps or the timing of any potential actions.

Mr. Quigley #17

Open Skies Enforcement

Question: It has been brought to my attention that according to recent data, international passenger bookings on global U.S. carriers and their joint venture partners from Chicago to the Middle East, Africa, Indian Subcontinent and ASEAN Countries dropped by 8.8% after the Gulf carriers' most recent entry into Chicago. Does anyone at DOT refute or question this data?

Answer: The Department and its interagency partners are examining the data referred to here, as well as other data presented, as part of the review process.

Mr. Quigley #18

Open Skies Enforcement

Question: Do you doubt that harm is being experienced by U.S. carriers as a result of the subsidies that Emirates, Etihad and Qatar are alleged to be receiving?

Answer: The Department and its interagency partners are examining the assertions of harm being experienced by U.S. carriers as a result of the subsidies that Emirates, Etihad and Qatar are alleged to be receiving as part of the review process.

Mr. Quigley #19

Open Skies Enforcement

Question: How many staff at DOT are working on this issue?

Answer: Staff from several offices at the Department, including the Office of Aviation and International Affairs and the Office of the General Counsel, are working on the issue.

Mr. Quigley #20

Open Skies Enforcement

Question: Does DOT have the resources necessary to enforce our Open Skies Agreement or to handle all of our bilateral air service relationships?

Answer: The framework provided by existing open-skies agreements, including the broadly-applicable "fair and equal opportunity to compete" clauses, provide a sufficient basis for the Department to address stakeholder doing-business issues that arise under those agreements. Furthermore, the Department has sufficient latitude to remedy concerns raised by stakeholders through the authority provided by Congress under the International Air Transportation Fair Competitive Practices Act and existing regulatory authorities.

TUESDAY, MARCH 1, 2016.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WITNESS

HON. JULIAN CASTRO, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DIAZ-BALART. The subcommittee will come to order.

By the way, before we get started, I want to take the time to recognize our minority clerk, Kate Hallahan. Today is Kate's last hearing. I am not sure if they are applauding—Kate I am not sure if they are applauding because you are leaving. I am not sure what this is. But she has now, again, after 29 years of Federal service, I will tell you personally I have thoroughly enjoyed working with Kate. She is credibly knowledgeable on transportation issues. Her dedication to this committee and to the members of this committee has been unwavering. Again, I consider her a friend. And, Kate, you will be deeply, deeply missed. Now we should be able to applaud I think, right?

And I do also want to congratulate Joe Carlile. He will be taking over as minority staff director. We all obviously know him. He has been a valued member of this THUD team, again, with deep understanding of this bill. And so, Joe, congratulations. All of us look forward to continue working with you. And you know you have got big shoes to fill but we know you are ready. With that, Kate, love you, miss you, already, miss you already.

Chairman ROGERS. Will the gentleman yield?

Mr. DIAZ-BALART. Yes, sir.

Mr. ROGERS. She has been a stalwart worker in this cause for a good while. And we are going to miss her. In the next chapter of your life, Kate, good luck. God speed to you.

Mr. DIAZ-BALART. Absolutely. Thank you. You know, why don't we do something very briefly. Ranking Member, why don't I yield to the ranking member and then to Mrs. Lowey very briefly.

Mr. PRICE. I'll have something in my statement. But I will happily yield to Mrs. Lowey.

Mrs. LOWEY. Well, I had something in my statement. But I think it is so important, I would rather begin at this point because I have known Kate Hallahan for a very long time. In fact, my middle daughter was deputy at the Department of Transportation years ago. And she told me all about Kate. Twenty-nine years, 29 years of government service. She is dynamic. She is hard working. She is dedicated. And she has spent an incredible portion of that career dedicating herself to this subcommittee.

I always say Kate, you are the answer woman. You ask her a question, she knows the answer. And if she doesn't, boy, she gets it for you quickly. How fortunate we have all been to have the counsel of Kate. And, Kate, I just wish you good luck. And I know we will all stay in touch. We will all miss you. And I know you will continue to succeed in whatever you decide to do, even if it is just enjoying the day in the sunshine.

So thank you so very much, Kate. We love you. We appreciate you. And we support you in everything you want to do in your future. Thank you.

Mr. DIAZ-BALART. Thank you, Mrs. Lowey. And, again, Mr. Secretary, thank you for your indulgence and to each and every member of the subcommittee because it is a special day, a bittersweet day for all of us here in the subcommittee.

Today, we welcome Secretary Julian Castro, from the Department of Housing and Urban Development, to discuss the fiscal year 2017 budget request. HUD is requesting a total of $49 billion in new budgetary resources in fiscal year 2017, about 3.5 percent above 2016. Now, this is not a dramatic increase. Unfortunately, however, there are so many accounting gimmicks in the budget as a whole, that it makes it difficult to, frankly, to take any of it very seriously.

We don't need to look further than, frankly, to other cabinet agencies funded by this subcommittee to demonstrate that point. As we saw in the previous hearing, the Department of Transportation's budget uses gimmicks to cheat the bipartisan budget agreement by nearly $10 billion. However, the Appropriations Committee must abide by the agreement. So the administration is only, frankly, cheating itself out of the opportunity to communicate its priorities.

The Appropriations Committee must pass bills within the discretionary caps that we have all agreed to in last year's budget deal. And we cannot depend on accounting gimmicks to do so. So even in the HUD request itself, we find evidence of the administration gaming the system and breaking promises made just last year.

Like DOT, HUD proposes billions of dollars in extra spending by classifying new programs as mandatory. Look, spending is spending, regardless of how it is categorized. Just because you call it mandatory doesn't mean that it won't increase our national debt. Even more frustrating, however, is the lack of specifics. Mr. Secretary, your request makes a commitment of over $11 billion in new programs for which you provide no details, no legislative language, and really not much more than lofty talking points and wishful thinking.

So don't get me wrong, you know, I represent low income and urban areas. And I totally support the spirit of HUD's mission and the desire to always try to do more. My mayors, and city councils, and community leaders and constituents all rely on HUD programs. But that is why it is so important that HUD is real, gets real about its resource challenges, to help us, to help this subcommittee identify which programs must be made a priority in this next year.

In addition to targeting the right priorities, it is so critical that HUD be a good steward of its resources, as nearly all of what HUD oversees helps the most vulnerable and deals with the most vulnerable. Yet, I continue to receive reports that HUD has tremendous difficulty with basic management. The number and the seriousness of negative inspector general reports is, frankly, astonishing. Poor financial controls, possible Antideficiency Act violations, lack of program oversight, major risks to IT systems, major gaps in cybersecurity, the list goes on and on and on.

Now you see, I want to work with the administration to make HUD the high quality, high functioning organization that it must be to oversee these important programs. If the Department remains this dysfunctional, frankly, what hope is there that we can tackle homelessness, that we can tackle economic stagnation, and all other major challenges that are part of HUD's mission?

I look forward to working with you, Mr. Secretary. And I think we enjoy a great relationship and great communication. So I look forward to working with you as we make the hard choices necessary to meet our Nation's housing and economic development needs, all while being accountable to the taxpayer and respectful of last year's bipartisan budget agreement that, again, we are bound by.

Now before we go to your opening statement, Mr. Secretary, I would now like to recognize the ranking member of the subcommittee, the gentleman from North Carolina, Mr. Price, for his opening statement.

Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. And I want to join you in welcoming our Secretary of Housing and Urban Development, Julian Castro. I am glad to have you with the subcommittee.

Now, I also want to say a few words about our retiring Democratic clerk, Kate Hallahan. We really hate to see her go, as the remarks of other members have indicated. You have heard about her past 29 years in public service. I think of Kate as the model of what public service is about.

She started on the Hill in the office of Representative Al Swift of Washington State, worked at the Department of Transportation, then at the Senate Appropriations Committee before she joined us and settled down for a while in 2006. Kate simply has an expertise in transportation policy that is unmatched. She also knows the Hill very well and the appropriations process very well. And she knows everybody.

Everybody knows and likes Kate, and admires her and respects her, as that network of personal contacts which let her be very, very effective and find out the answer to any question anybody raises just very, very quickly and effectively. She is tireless. She is determined. She is creative in finding a way to get the job done, even against formidable odds as they often are formidable. She does it all with terrific good humor and a cooperative, engaging manner.

So I am really sorry to see Kate go. We all are. We wish her well. She has earned this retirement. Still, we are going to miss her. So congratulations and God speed.

Now, turning to the request before us, the fiscal year 2017 HUD budget, the request provides $38 billion in resources, that is $628 million reduction from last year's level. The lower number comes from higher anticipated receipts, although I think that receipt number is likely to change once CBO scores the request. As was true with the Department of Transportation, the constraints of the budget agreement, which only partially corrects the distortions of sequestration, mean that it is likely the bill we put forward will not sufficiently address the known needs of housing in our communities.

An estimated three out of four eligible low-income households do not receive Federal rental assistance because of funding limitations. And it is well known that most public housing authorities are overwhelmed with multi-year wait lists for access to subsidized housing. So the resources available to this subcommittee make it virtually certain that we can only address the most pressing needs, rather than thinking boldly about the future of housing in this country.

Underscoring this reality, more than three-quarters of this budget request is dedicated simply towards maintaining current tenants in housing. In this budget environment, simply keeping pace with our existing obligations is a challenging task. We know we have a maintenance backlog of over $25 billion, that is $25 billion, in our Nation's public housing stock. Unfortunately, in this era of fiscal fundamentalism, providing the budget resources to eliminate this backlog is impossible. Even the more manageable goal of simply keeping up with the annual accrual needs, about $3 billion for the public housing capital fund each year, that remains out of reach.

Our States are struggling to provide housing and opportunities for people with disabilities. Yet, this budget would provide no additional resources to build new housing for this extremely vulnerable segment of the population. Similarly, we have built no new section 202 rental housing for the elderly for years. This budget wouldn't change that. Even after the disaster in Flint, which exposed the dangers of underinvestment in our infrastructure, and the persistent threat of lead in many communities, this budget requests flat-funding for lead hazard reduction activities, despite the clear need for more resources. In fact, in fiscal year 2015, the Department could only fund about half of the applicants seeking to remove the presence of lead from their local housing stocks.

I hope this request reflects a belief inside the administration that Congress intends to deal with this issue, rather than a belief that we do not need increased resources to address this health hazard. Simply put, this budget request lays bear the difficulty of allocating sufficient resources for our housing and community development priorities, especially when the majority continues to insist on misguided and arbitrary constraints on discretionary spending. Meanwhile, and this is the irony, meanwhile, mandatory spending and tax expenditures, which are the primary drivers of our long-term deficit, remain unaddressed.

Now, there are a few bright spots. And I will close with those. Despite these concerns, the Choice Neighborhoods Initiative, for example, a program that revitalizes and transforms communities by modernizing aging public housing, that receives a modest increase. The request also increases $88 million for new resources for homeless families with children. And to confront the challenges of housing in Indian Country, the request includes targeted increases in programs for Native Americans to improve living conditions and provide economic opportunity.

I am also pleased the budget request again proposes to update the statutory formula for the Housing Opportunities for People With AIDS Program, HOPWA, to ensure that our limited Federal resources are allocated to jurisdictions with the most need. I am hopeful HUD will continue to work closely with me and members of the authorizing committee to ensure that an updated formula is passed into law during this Congress.

So Mr. Secretary, I look forward to hearing your testimony today, working with you on all of these important programs. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you very much, Mr. Price. Now it is always a privilege to be able to recognize the chairman of the full committee, the gentleman from Kentucky, Chairman Rogers.

Chairman ROGERS. Thank you Mr. Chairman. And thank you for the introduction. Mr. Secretary, welcome to the Kate show.

We are delighted to have you with us to talk about your budget request which, as the chairman has said, is $48.9 billion in discretionary funds, which is a $1.6 billion increase over current levels. But, additionally, as has been said, you have requested $11 billion in funding for new programs on the mandatory side of the ledger. The amount alone is shocking, but the fact that the administration is proposing new mandatory programs, with no specific information or details as to where it goes, that is especially disturbing.

Unfortunately, this has been a troublesome and recurring theme across the budget, and I have conveyed a similar message to your departmental colleagues in the past 2 weeks.

In December, we came to a bipartisan agreement with the White House on spending caps for the fiscal year—and we simply can't afford, and cannot and will not tolerate, efforts to circumvent those caps by putting these funds on automatic pilot in the mandatory column over which we have no control. Although it required many difficult decisions, Congress followed the law and stayed within the caps for the 2016 Omnibus Bill. I hope the message is clear that this committee is committed to staying within those caps for fiscal year 2017. If these programs are truly priorities for the administration, we will need to find a way to make it work within the agreed-upon framework. And we look forward to working with you in that regard.

In eastern Kentucky, in my district, we have been working on a regional community development initiative known as Shaping Our Appalachian Region, SOAR, to help my area, which has been hit hard with a loss of over 10,000 mining jobs since the President took office. One program that provides a true benefit to struggling regions like mine is the Community Development Block Grant Program, incredibly popular and effective, because it provides flexibility to address unique community development needs from town to town, county to county. These dollars are often leveraged over many times to carry out projects that otherwise would never get off the ground.

In my rural district, small communities have also utilized these funds to help create jobs through the expansion and retention of businesses. Because of the significant impact this program has in my region and across the country, I was disappointed to see the cuts proposed in the administration's budget proposal.

I would be remiss if I didn't mention my concern over the Self-help Homeownership Opportunity Program, SHOP. For the past few years, the administration has recommended moving SHOP into the HOME Partnership Program—and Congress has repeatedly kept it as its own line item. This year, again, you proposed moving it under HOME. This program allows low-income home buyers to contribute significant amounts of their own sweat equity towards the construction or rehab of their homes.

This allows many low-income families, the otherwise out-of-reach opportunity, to own their own home and provide their children with a safe and sanitary place to live, play, and grow. The huge impact this program has across the country justifies it remaining an independent program.

So, Mr. Secretary, we look forward to working through the budget process with you the next few months. We want to be helpful. We appreciate the service that you are giving your country. And we look forward to working with you. I yield back.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. I am also very privileged to recognize the ranking member of the full committee, Mrs. Lowey.

Mrs. LOWEY. And thank you, Mr. Chairman. And I want to join my colleagues in welcoming you, Secretary Castro. Thank you for joining us today.

Mr. Secretary, HUD's budget request does include some bright spots, including $20.8 billion for tenant-based rental assistance, a 6.2 percent increase over fiscal year 2016, $200 million for the Choice Neighborhoods Initiative, a $75 million or 60 percent increase over fiscal year 2016, and $88 million for a new program that would fund 10,000 new vouchers for homeless families with children. These increases are essential for these programs to keep pace with actual needs.

However, I was disappointed by not only a 1 percent decrease in HUD's overall budget, a $328 million decrease from fiscal year 2016, but also some significant cuts to programs that our constituents depend on, like a $200 million cut to the Community Development Block Grant Program. The request also flat-funds the HOME Program at $950 million, as well as the Lead Hazard Control and Healthy Homes Programs at $110 million, with $83 million for Lead Hazard Control grants and $25 million for the Healthy Homes Program, respectively.

This funding, as you heard from my colleague and the ranking member, is just not adequate or sufficient to meet our country's actual housing needs. Lead Hazard Control has made huge strides in eliminating household toxins that affect our communities, resulting in lower lead poisoning rates and better educational and behavioral outcomes for children. Work remains to remove lead from the homes of millions of families. Now is not the time to flat-fund it.

Many communities throughout the country lack adequate, safe, affordable housing for all income levels. The housing sector must play a big role in strengthening and growing the middle class, empowering hardworking families, and providing economic opportunity for all Americans. I look forward to working with you, Secretary Castro, and to listening to your testimony today. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you very much, Mrs. Lowey.

Mr. Secretary, your full, written testimony will be included in the record. And so with that, you are recognized for 5 minutes. Thank you again for being here.

Secretary CASTRO. Thank you very much, Chairman Diaz-Balart. To the Ranking Member Price, Chairman Rogers, Ranking Member Lowey, and members of the subcommittee. Thank you for inviting me to discuss HUD's proposed budget for fiscal year 2017.

Our request honors the President's commitment to provide more Americans with the chance to secure quality and affordable housing, and to use housing as a platform that sparks greater opportunity in people's lives. This proposal comes at a time of tremendous momentum for the American economy.

The unemployment rate has been cut in half since 2009. Over the past 71 months, businesses have added 14 million jobs, the longest streak of private sector job growth in our Nation's history. Now, we must ensure that this progress reaches every corner of our Nation. And expanding housing opportunity is a vital part of this mission.

Today, one-quarter of American renters spend more than half their incomes on housing. And for every dollar that goes toward a rent payment, one is taken from a family's grocery budget, a child's education, or a couple's retirement savings. That is why the President's budget calls for increasing HUD's funding to $48.9 billion, $1.9 billion over the enacted level for fiscal year 2016.

Eighty-five percent of our budget would go solely toward renewing rental assistance for nearly 5.5 million households. But we have also taken strong steps to maximize our remaining resources, investments that would support our Nation's most underserved communities and empower more hardworking Americans to lift themselves into the middle class.

Six years ago, the President set forth a bold vision to end homelessness in America. And since then, we have made great strides. The best example of this, a 36 percent decline in veteran homelessness between 2010 and 2015. I want to thank the members of this committee for funding HUD VASH over the years. And with your support, we can fully achieve the President's vision and help the next generation to escape the cycle of homelessness. HUD's Family Option Study offers clear evidence that rapid rehousing and housing choice vouchers are the most effective solutions for families with children experiencing homelessness. So we have asked for a historic $11 billion investment in mandatory spending over the next 10 years that would use these tools to assist approximately 550,000 families.

This budget also reinforces HUD's commitment to empowering more Americans through housing mobility. We have requested $20.9 billion for our Housing Choice Voucher Program, an increase of $1.2 billion from the enacted level for fiscal year 2016. This would provide 2.2 million low-income families with the chance to move into neighborhoods with better schools, safer streets, and more jobs, and stay there for the long term.

But HUD's mission also extends beyond housing mobility. Too many communities remain segregated by race and by income. And too many Americans see their futures limited by the zip code where they were born. And HUD's proposed budget reflects our duty to revitalize underserved communities. Our Rental Assistance Demonstration Program has already leveraged nearly $2 billion for crucial repairs in public housing and other HUD-assisted properties. And we have asked Congress for $50 million dollars to make targeted investments in 25,000 new units and to eliminate the remaining cap on the number of units eligible for RAD conversion.

We have also requested $2.8 billion for the Community Development Block Grant Program which improves infrastructure, rehabilitates housing, and creates jobs for folks of modest means, and $200 million for Choice Neighborhoods, which helps to transform areas of concentrated poverty by creating quality mixed-income housing, improving public safety, and sparking neighborhood small business growth.

Finally, the President knows that many Native American communities face substandard living conditions and significant barriers to economic opportunity. So this budget requests $780 million to improve housing and development on tribal lands, including $20 million for Native youth programs, like community centers, health clinics, and Head Start facilities. The President's budget reflects his determination to promote inclusive opportunity for all Americans.

And I look forward to working with this committee to build a future where every American can live in a home that offers them pride, progress, and hope. Thank you.

[The information follows:]

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

Written Testimony of Julian Castro
Secretary of U.S. Department of Housing and Urban Development (HUD)
Hearing before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations
on
"FY 2017 Budget Request for the Department of Housing and Urban Development"
Tuesday, March 1, 2016

Thank you, Chairman Diaz-Balart and Ranking Member Price, for this opportunity to discuss how HUD's fiscal year 2017 budget proposal follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building. This Budget targets our investments to the families and geographies that need them the most, and puts more Americans back to work.

HUD's Budget is an essential component of the President's vision of investing in the things we need to grow our economy, create jobs, increase skills training and improve education, while continuing long term deficit reduction. Our request maintains assistance to low-income families currently served by HUD programs, expands assistance to targeted vulnerable populations, including the homeless and Native Americans, and revitalizes neighborhoods with distressed HUD-assisted housing and concentrated poverty. HUD's work is critical to the Administration's efforts to strengthen communities, bolster the economy, and improve the quality of life of the American people.

Overall, the President's Budget provides $48.9 billion for HUD programs, an increase of $1.9 billion above the 2016 enacted level. This spending is offset by projected receipts of $10.9 billion. Increases are provided to protect vulnerable families, make significant progress toward the goal of ending homelessness, and support community-centered investments, including funding to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. This budget is built on rigorous research and evidence of what works, providing flexibility and investing in strategies that have been proven to pay dividends for families and communities.

The fiscal year 2017 HUD Budget:

Provides Opportunities for America's Most Distressed Neighborhoods to Revitalize and Increase Economic Growth. The Budget provides $200 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal Government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities. To further support Promise Zones, the Budget includes companion investments of $128 million in the Department of Education's Promise Neighborhoods program and $24 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth.

The Budget proposes $300 million in mandatory funds for a new Local Housing Policy Grants program. This program will provide grants to localities and regional coalitions to support new policies, programs or regulatory initiatives that create a more elastic and diverse housing supply, and in turn, increase economic growth, access to jobs and improve housing affordability. These funds will support a range of transformative activities in communities across the nation that reduce barriers to housing development, increase housing supply elasticity and affordability, and demonstrate strong connections between housing, transportation, and workforce planning.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs. HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns federal policies and funding to remove barriers to local collaboration. The Budget provides $2.8 billion for the Community Development Block Grant (CDBG) formula program, and proposes reforms to better target CDBG investments to address local community development goals. The budget also provides $950 million for the HOME Investment Partnerships Program to help state and local governments increase the supply of affordable housing and expand homeownership opportunities for low-income families.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan to End Homelessness. The Budget includes $20.9 billion for the Housing Choice Voucher program to help about 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and adds 10,000 new vouchers to the program, targeted to families with children experiencing homelessness. The Budget also includes $10.8 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides $6.4 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The Budget provides $2.7 billion for Homeless Assistance Grants, $414 million above the 2016 enacted level. The increased funding will enable HUD to maintain existing projects, fund the increased competitive renewal demand for Continuums of Care in fiscal year 2016, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. In addition, the Budget includes 8,000 rapid rehousing interventions for households with children, which will support the goal of ending child, family and youth homelessness by 2020, and $25 million in new projects targeted to homeless youth.

In addition to the targeted requests for homeless families with children above, the Budget requests $11 billion in mandatory funds for vouchers and rapid rehousing to end family homelessness. Approximately 550,000 families will be supported over ten years to stabilize their housing and assist them to become more self-sufficient. This proposal is based on rigorous research and will give families the right support at the right time to promote better outcomes.

Improves mobility through the Housing Choice Voucher program. The Budget provides $2.1 billion in Public Housing Authority (PHAs) administrative fees using a new evidence-based formula that not only more accurately reflects the actual cost of running the program, but ensures that PHAs have sufficient resources to provide low-income families greater access to opportunity areas. In addition, the Budget requests $15 million for a new mobility counseling demonstration that is designed to help HUD-assisted families move and stay in higher-opportunity neighborhoods. A portion of the funding will also support an evaluation to measure the impact of the counseling pilot to further inform the policy process and design.

Puts HUD-subsidized Public and Assisted Housing on A Financially Sustainable Path. Public housing authorities (PHAs) house over three million families. To bring our rental housing system into the 21st century and continue to address the $26 billion in public housing capital needs, the Budget includes proposals that would facilitate the conversion and preservation of additional Public Housing and other HUD-assisted properties under the Rental Assistance Demonstration (RAD). At the same time, the Budget provides $50 million for a targeted expansion of RAD to Public Housing properties in high-poverty neighborhoods and requests authority to convert Section 202 Housing for the Elderly Project Rental Assistance Contract properties to Section 8 platforms.

Improves the Way Federal Dollars are Spent. The Administration supports legislation to modernize the Housing for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. The Budget's $335 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay connected to treatment, and therefore improving health outcomes for this vulnerable population.

The Budget also provides $35 million for the evidence-based Jobs-Plus program, a proven model for increasing public housing residents' employment and earnings. Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities.

Invests in Research and Support to Make HUD and its Grantees More Effective. The American economy of the future requires a federal government that is efficient, streamlined, and transparent. This Budget once again calls for the flexible use of resources through HUD's Office of Policy Development and Research, which the Department will use to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research; and evaluate program initiatives and demonstration programs so we can fund what works and stop funding what doesn't.

The Budget also continues to invest in focused upgrades to the IT infrastructure to improve service delivery and to better track and monitor our programs.

Consistent with the previous three years, HUD's fiscal year 2017 Budget is structured around the five overarching goals the Department adopted in its new Strategic Plan 2014-2018. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America. Indeed, every month, I hold *HUDStat* meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers

This Administration entered office confronting the worst economic crisis since the Great Depression. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. This Budget drives economic growth by increasing access to credit and strengthening the FHA.

In fiscal year 2017, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, and $30 billion in loan guarantee authority for the General and Special Risk Insurance Fund. The need for FHA is clear as it stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers.

The Budget also includes a request for the FHA Administrative Fee that will assist FHA in performing critical Quality Assurance work by funding important Information Technology investments as well as administrative investments to maintain FHA as an effective partner with borrowers and lenders. This modest fee on lenders will be applied only prospectively, and these funds will make it possible for FHA to continue to increase access, helping to place homeownership within the reach of more Americans.

Goal 2: Meet the Need for Quality, Affordable Rental Homes

In an era when more than one-third of all American families rent their homes and over 7.7 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in substandard housing, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities affordable rental housing does not exist without public support. HUD's 2017 Budget maintains HUD's core commitments to providing rental assistance to some our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 85 percent of HUD's total 2017 budget authority requested goes toward renewing rental assistance for current residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs, and to some limited, strategic expansion of rental assistance to specific vulnerable households.

HUD's core rental assistance programs serve some of the most economically vulnerable families in the country. In these programs, including Housing Choice Vouchers, Public Housing and Project Based Rental Assistance (PBRA): almost 75% of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). Although worst case housing needs decreased to 7.7 million in 2013 from the record high of 8.5 million in 2011, these needs are still a national problem. Housing needs have expanded dramatically during the past decade and were exacerbated by the economic recession and associated collapse of the housing market, which reduced homeownership through foreclosures and increased demand for renting."

Preserving Affordable Housing Opportunities in HUD's Largest Programs
This Budget provides $20.9 billion for HUD's Housing Choice Vouchers program, which is the nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2017 funding level is expected to assist approximately 2.2 million families and support new incremental vouchers for areas of high need, for targeted populations. This Budget adds voucher leasing opportunities through funding for approximately 10,000 new units of housing for homeless families with children.

The Budget also provides a total of $6.4 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating ($4.6 billion) and Capital ($1.9 billion) funds, a critical investment that will help over 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a $10.8 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Rebuilding our Nation's Affordable Housing Stock
Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and state entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately $26 billion, or $23,365 per unit. Funding for the Capital Fund has been insufficient to meaningfully reduce public housing's backlog of repair and replacement needs or even meet the estimated $3 billion in annual accrual needs. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory has lost an average of 10,000 units annually through demolitions and dispositions.

- *Rental Assistance Demonstration*
  To help address the backlog of unmet capital needs and to preserve this critical source of affordable housing, HUD is continuing to implement the Rental Assistance Demonstration (RAD), a program which enables PHAs to convert public housing to the Section 8 platform. In addition to the public housing stock,

the RAD program targets certain "at-risk" HUD legacy programs. Prior to RAD, units assisted under Section 8 Moderate Rehabilitation (MR) and Section 8 Moderate Rehabilitation Single-Room Occupancy (MR SRO) were limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties, and units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) had no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expired, these projects would no longer be available as affordable housing assets.

Conversion to Section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term Section 8 rental assistance allows for state and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions of assistance without additional subsidy, HUD requests $50 million in 2017 for the incremental subsidy costs of converting assistance under RAD for properties that cannot feasibly convert to Section 8 at existing funding levels. This funding would also support a requested expansion of the RAD authority to include Section 202 Housing for the Elderly Project Rental Assistance Contracts (PRACs). Overall, the requested funding will be targeted to: 1) Public Housing properties located in high-poverty neighborhoods, including designated Promise Zones, and in areas where the Administration is supporting comprehensive revitalization efforts as well as transfer of assistance to high opportunity locations where there is a limited supply of affordable housing, and 2) Section 202 PRACs with significant recapitalization needs, including those properties with service coordinators for frail and elderly residents. The Department estimates that the $50 million in incremental subsidies will support the conversion and redevelopment of approximately 25,000 Public Housing and Section 202 PRACs, while helping to increase private investment in the targeted projects.

In addition to the funding request, the proposed legislative changes to RAD are designed to allow for maximum participation by those PHAs and private owners whose current funding levels are sufficient for conversion. This includes, for example, elimination of the 185,000 unit cap, which will allow for a greater portion of the Public Housing stock that can convert at no cost to the federal government to participate in the demonstration.

Goal 3: Use Housing as a Platform for Improving Quality of Life

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2017 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness
Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to a 36 percent reduction in veterans' homelessness and a 22 percent reduction in chronic homelessness, and a 19 percent in family homelessness since 2010. Additionally, this work has yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's Budget once again invests in this critical effort, by providing $2.7 billion in Homeless Assistance Grants. This funding level will support competitive programs that annually serve over 800,000 homeless families and individuals, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. The Budget also includes 8,000 rapid rehousing interventions for households with children. In addition, the Budget includes $88 million for housing vouchers for homeless families with children and also proposes another $11 billion in new mandatory spending to reach and maintain the goal of ending family homelessness by 2020.

Leveraging Capital Resources and Serving our Most Vulnerable
This Budget provides a total of $659 million for the Housing for the Elderly and Housing for Persons with Disabilities programs. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to state housing agencies that formed partnerships with state health care agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD requested, and received, similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

Goal 4: Build Strong, Resilient and Inclusive Communities

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2017 Budget puts communities in a position to plan for the future and draws fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 16 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, offer choices that help families live closer to jobs and schools, and support locally driven solutions to overarching economic development challenges. HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing
Through both formula and competitive grants, HUD has partnered with local organizations and state and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decision-makers are best poised to drive a cohesive development strategy. In 2017, HUD is requesting a total of $2.9 billion in funding for the Community Development Fund to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities, and $950 million for the HOME program.

The Budget requests $2.8 billion for the Community Development Block Grant (CDBG), which remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of states and local governments. Since its inception in 1974, CDBG has invested in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low-and moderate-income families. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes. However, to ensure that CDBG funds effectively provide targeted benefits to these communities, especially to low- and moderate-income populations, HUD proposes a suite of reforms to strengthen the program; help grantees target funding to areas of greatest need; enhance program accountability; synchronize critical program cycles with the consolidated plan; and reduce the number of small grantees while providing more options for regional coordination, administration and planning.

Often, CDBG dollars alone are insufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the Section 108 Loan Guarantee program. Section 108 allows states and local governments to leverage their CDBG grants and other local funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In 2017, HUD is requesting Section 108 loan guarantee authority of $300 million, and the continuation of a fee-based structure will eliminate the need for budget authority to cover the program's credit subsidy.

In addition, the HOME program is proposed at $950 million and the Budget proposes legislative changes to better target the assistance provided with this funding. HOME is the primary federal tool of state and local governments for the production of affordable rental and for-sale housing for low-income families. In the past 21 years, HOME has completed 1.22 million affordable units. The Budget also proposes statutory changes that would eliminate the 24-month commitment requirement, eliminate the 15 percent Community Housing Development Organization (CHDO) set-aside, establish a single qualification threshold, revise "grandfathering" provisions so that HOME participating jurisdictions that fall below the threshold three out of the five years would be ineligible for direct grants, and provide for reallocation of recaptured CHDO technical assistance funds.

Notably in 2017, CDBG and HOME are part of the proposed Upward Mobility Project, a new initiative to allow states, localities or consortia of the two to blend their CDBG and HOME allocations with funding from the Department of Health and Human Services' Social Services Block Grant and Community Services Block Grant in a flexible way to achieve local goals. Communities would design Upward Mobility Projects around achieving a specific outcome—like increasing families' earnings, improving children's outcomes, expanding employment opportunities, or increasing housing stability—then employ the most promising evidence-based methods to achieve that goal. To support the Upward Mobility Projects, Federal agencies will partner with applicants to blend the identified funds and provide the appropriate waivers needed for required flexibilities, including but not limited to aligning household eligibility criteria, aligning and streamlining reporting requirements, and coordinating and sustaining service delivery.

In addition, the new Local Housing Policy Grants program would complement and leverage communities' CDBG and HOME activities by providing a total of $300 million in mandatory funding for competitive grants to increase economic growth, access to jobs and improve housing affordability by supporting new policies, programs or regulatory initiatives to create a more elastic and diverse housing supply. To that end, the funding would allow localities to make investments in areas like infrastructure expansion or improvement, housing market evaluations, code writing or design assistance, and stakeholder outreach and education.

Assisting Native Americans
Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally-driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2017, HUD is requesting a total of $786 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

- $700 million for the Indian Housing Block Grant (IHBG) program, which is the single largest source of Federal funding for housing on Indian tribal lands today.
- $80 million for Indian Community Development Block Grants, a flexible source of grant funds for Federally-recognized tribes or eligible Indian entities, requested within the Community Development Fund.

Of this funding, $20 million is set aside for projects to improve outcomes for Native Youth, such as the development, rehabilitation or acquisition of community centers and health clinics.

- $5.5 million for the Indian Housing Loan Guarantee Fund, which provides loan guarantees to increase the availability of mortgage lending on Indian reservations and other Indian areas.
- Increases the set-aside for *colonias* investment in communities along the US-Mexico border from 10 percent to 15 percent, to address problems with lack of infrastructure, including adequate water, sewer facilities and decent housing.

In addition, up to $5 million in funding requested for Jobs-Plus would be used to implement a demonstration of the successful Jobs-Plus model in Indian Country.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built from the middle class out if: a fifth of America's children live in poverty, at a cost of $500 billion per year—fully 4% of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2017 Budget provides $200 million for Choice Neighborhoods to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. Choice Neighborhoods—along with RAD—is an essential element of the President's Promise Zones initiative, which is designed to support revitalization in some of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, expanding educational opportunity, and reducing violent crime.

The President announced the first five Promise Zones in January 2014 and will designate an additional 15 Zones by the end of calendar year 2016. Communities compete to earn a Promise Zone designation by identifying a set of positive outcomes, developing a strategy, encouraging private investment and realigning federal, state, and local resources to support achievement of those outcomes. The Promise Zone designation process ensures rural and Native American representation. Promise Zones will receive tax incentives, if approved by Congress, to stimulate hiring and business investment along with intensive federal support and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Applicants from Promise Zones will also receive points for competitive federal grants that will increase the odds of qualifying for support and assistance to help them achieve their goals.

Promise Zones are aligning the work of multiple federal programs in communities that have both substantial needs and a strong plan to address them. The Promise Zones initiative builds on the lessons learned from existing place-based programs like the Department of Education's Promise Neighborhoods and the Department of Justice's Byrne Criminal Justice Innovation program, both of which receive substantial increases in the Budget. Other federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many federal grant programs followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Inclusive Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the federal government whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2017, HUD is requesting $46 million in FHIP funds, representing the Department's strong commitment to fair housing. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition, it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2017, the Budget provides $21.9 million in FHAP grants to nearly 90 government agencies to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law.

Ensuring that an Economy Built from the Middle Class Out Includes Opportunities for Rural Americans
The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy – particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. HUD serves families in small towns and rural communities through almost every major program it funds.

As the single largest sources of funding for housing on Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Housing Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2017 HUD is requesting $786 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Departments of Treasury and Agriculture meet regularly through the interagency Rental Housing Policy Working Group to better align and coordinate affordable rental housing programs. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. HUD has also entered into a Memorandum of Understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Department Agriculture – Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in *colonias* along the U.S.-Mexico border, will improve the delivery of funding from federal agencies and private sources supporting small business, affordable housing and community facilities.

Goal 5: Achieving Operational Excellence

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a government that's leaner, smarter, and more transparent. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before – HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy recovery, and the structural gap between household incomes and national housing prices – roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2016 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented strategically.

Investing In Our Staff
HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well; which is why HUD is creating training and leadership development opportunities for employees at all levels. Over time, the rules and regulations that develop within an organization become hurdles instead of the helpful pathways they were intended to be. HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. In addition, the Department is in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority to managers and provide better service to HUD customers.

In 2016, HUD is requesting $1.365 billion in salaries and expenses, in addition to $23 million for Ginnie Mae and $129 million for HUD's Office of Inspector General (OIG). The HUD request includes several initiatives to streamline the HUD organization, consolidate functions for increased efficiency, and increase training for our staff. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules and provide more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our nation's most difficult challenges.

Carrying Out Critical Program Demonstrations and Research
HUD's ongoing transformation is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. The Department has taken an enterprise-wide approach to both technical assistance and research that has bolstered these efforts and increased the efficiency and effectiveness of the Department's programs. Further, this shared approach has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department's transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD's constituent services don't suffer at the hands of internal transformation. This year's Budget proposes to again fund research and demonstrations by transfers from program accounts. In fiscal year 2017, HUD's request includes transfer authority of up to $120 million into the Office of Policy Development and Research, up to $35 million of which will be for research, evaluations and program demonstrations, and at least $85 million of which will be for cross-cutting technical assistance, including place-based technical assistance. This includes training, education, support and advice to help community development corporations and community housing redevelopment organizations carry out community development and provide affordable housing activities for low- and moderate-income persons, as previously funded through the Self-Help and Assisted Homeownership Opportunity Program (SHOP) account. This modified approach will enable HUD to better integrate technical assistance and capacity building.

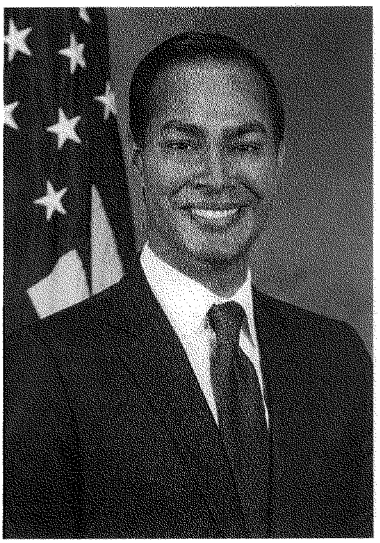
Upgrading the Department's Information Technology Infrastructure
In 2017, HUD is requesting $286 million for the Information Technology Fund. HUD will continue development efforts and will focus on delivery of discrete capabilities in our FHA and voucher management systems, as well as exploring consolidation of several grant management applications. In fiscal years 2015 and 2016, HUD deployed three successful releases of the New Core project, which transitioned key administrative and financial management functions to the Treasury Department in the largest financial management shared service arrangement established to date. HUD also implemented an enterprise-wide financial system that allows the Department to resolve material weakness and audit findings though a consolidated shared services infrastructure platform. These changes are allowing HUD to deliver services and manage these multi-billion dollar programs faster, more accurately and using better information for analysis.

Conclusion

Chairman Diaz-Balart, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the nation's middle class, including providing economic opportunity for all Americans, whatever their circumstances. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

It's about making hard choices to reduce the deficit – and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

Biography of Secretary Julián Castro



Julián Castro was sworn in as the 16th Secretary of the U.S. Department of Housing and Urban Development on July 28, 2014. In this role, Castro oversees 8,000 employees and a budget of $46 billion, using a performance-driven approach to achieve the Department's mission of expanding opportunity for all Americans.

"Julián is a proven leader, a champion for safe, affordable housing and strong, sustainable neighborhoods," said President Barack Obama after Castro's confirmation. "I know that together with the dedicated professionals at HUD, Julián will help build on the progress we've made battling back from the Great Recession - rebuilding our housing market, reducing homelessness among veterans, and connecting neighborhoods with good schools and good jobs that help our citizens succeed."

As Secretary, Castro's focus is ensuring that HUD is a transparent, efficient and effective champion for the people it serves. Utilizing an evidence-based management style, he has charged the Department with one goal: giving every person, regardless of their station in life, new opportunities to thrive.

Under Castro's leadership, the Federal Housing Administration lowered mortgage insurance premiums to make homeownership more affordable for responsible families. HUD also released its new Affirmatively Furthering Fair Housing Rule to fulfill the full promise of the Fair Housing Act - helping families' access strong neighborhoods with housing choice vouchers and empowering local leaders with new tools to invest in their communities.

In July of 2015, President Obama helped launch one of Secretary Castro's signature projects, ConnectHome, which accelerates Internet adoption in 28 communities, providing broadband and electronic devices to children living in public and assisted housing.

Secretary Castro continues to strive to make housing a platform that helps folks achieve a better quality of life.

Before HUD, Castro served as Mayor of the City of San Antonio. During his tenure, he became known as a national leader in urban development. In 2010, the City launched the "Decade of Downtown", an initiative to spark investment in San Antonio's center city and older neighborhoods. This effort has attracted $350 million in private sector investment, which will produce more than 2400 housing units by the end of 2014.

In addition, San Antonio's East Side is the only neighborhood in America that has received funding to implement major projects under three key Obama Administration revitalization initiatives: Choice Neighborhoods, Promise Neighborhoods and the Byrne Criminal Justice Program.

In March 2010, Castro was named to the World Economic Forum's list of Young Global Leaders. Later that year, Time magazine placed him on its "40 under 40" list of rising stars in American politics.

Previously, Castro served as a member of the San Antonio City Council. He is also an attorney and worked at Akin, Gump, Strauss, Hauer & Feld before starting his own practice.

Secretary Castro received a B.A. from Stanford University in 1996, and a J.D. from Harvard Law School in 2000. He and his wife, Erica, have a daughter, Carina and a son, Cristian.

Mr. DIAZ-BALART. Thank you very much, Mr. Secretary.

We will proceed in the standard 5-minute rounds, alternating sides, recognizing members in order of seniority as they were seated at the beginning of the hearing.

And, as always, please be mindful of your time and allow Secretary Castro the time to answer within that 5-minute period.

Mr. Secretary, as I alluded to, I mentioned in my opening statement, the HUD Office of Inspector General had to express a disclaimer on HUD's 2014 and 2015 financial statements. The IG found billions of dollars improperly accounted for at CPD and tens of billions in audit problems at Ginnie Mae.

Mr. Secretary, it is bad enough, it would be bad enough if it was 1 year. But it is, frankly, terrifying that a financial institution as important as HUD can't get a clean bill of health from its auditors 2 years in a row.

So if you could, sir, as simply as you can, can you just explain what is going on with HUD's financials?

Secretary CASTRO. Yes. Thank you very much for the question, Chairman. You know, the audit that you are talking about is one that, of course, we take very seriously.

Let me begin by saying that we have a close working relationship with our inspector general. We meet on a regular basis. And this is, of course, one of the items that we have been working on together. You are correct that we had a disclaimer in 2014 and 2015. I am pleased to tell you that Ginnie Mae has been working with the inspector general, with GAO, to take several steps to improve that situation. It has filled key leadership positions. It has revamped several of its processes. Improved the way that it does business.

I also want to assure you that I have made it very clear, to all of my staff, that we take the recommendations of the inspector general seriously. In fact, I know that you all are going to have an opportunity to meet with the inspector general soon. And he and I meet on a regular basis. It is fair to say there are very few instances at HUD, whether it is this audit or others, where we are out of sync with the inspector general. And in those instances where there is a difference of opinion, there is a concrete reason for it.

So in 2014, we had 11 material weaknesses in our audit. In 2015, we brought that down to nine material weaknesses. We believe that in 2016, that we will be able to bring that down further. We are making progress and will continue to work with the inspector general, with GAO, and others to improve our systems and ensure that the audit improves as well.

Mr. DIAZ-BALART. And, Mr. Secretary, HUD is operating for now several months without a permanent CFO. Any idea when you think that might be, that critical position might be filled by somebody who can address these issues?

Secretary CASTRO. You bring up an issue that we have been working on. This is something that our deputy secretary, herself, has been attentive to. And we very much are working toward filling that position. We believe that it is important.

I don't want to give a timeline right now in the sense of, you know, we believe that in the next several months, but hopefully sooner, that that position will be filled. It is something that we have been working on, have not been able to fill yet, but continue to work diligently on.

Mr. DIAZ-BALART. Mr. Secretary, the First in–First Out, the improper use of that, FIFO accounting is one of the biggest reasons for the IG audit disclaimer. And it appears HUD is violating statutory requirements under the HOME Program because of this faulty accounting.

Even worse, the IG believes these accounting mistakes meet the definition of an Antideficiency Act violation which, as you know, would mean that you are, frankly, spending money that you don't have. And have you been able to investigate, have you investigated the IG's findings to determine whether HUD's breach is, in fact, a breach of—again of the HOME statute, is in fact, an Antideficiency Act violation?

Secretary CASTRO. You know, we, over the last year, in fact, have reported from the past 14 separate Antideficiency Act violations that HUD had engaged in in the past. In an effort to get beyond those, we have improved our processes so that we don't encounter Antideficiency Act violations in the future.

In fact, I think that it is fair to say that today, in 2016, the challenge at the end of the year is often, at the end of the fiscal year, is often, trying to ensure that money that has been appropriated is spent. Because of the Antideficiency Act situations that were encountered in the past, many of our program areas are shy about spending towards the end of the fiscal year. And so we are improving our processes so that we both hit our mark but do not commit an Antideficiency Act violation.

I would be glad to get you more information on the specific one that you are talking about.

Mr. DIAZ-BALART. I greatly appreciate that, Mr. Secretary. And, again, sticking to the time limit, Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, let me ask you about—oh, I'm sorry, yes. I am reminded that our ranking member of the full committee has another engagement and I am to yield to her. So before I run my mouth any further——

Mr. DIAZ-BALART. That is a good thing for you to remember.

Mr. PRICE. It is a good thing to remember. Mrs. Lowey.

Mrs. LOWEY. We have a partnership here. And I know the chairman and I need roller skates these days. We have about five or six hearings a day. But you are very gracious. Thank you so much. And thank you again for your testimony, Mr. Secretary.

Mr. Secretary, the criminal incompetence that resulted in tens of thousands of American citizens in Flint consuming lead-contaminated water is shocking. Historically, lead paint has been the most, most widespread source of lead exposure. Much of the success we have had in reducing exposure to lead hazard has come from a partnership between HUD, the EPA, and the CDC, each providing expertise and resources.

However, over the past few years, funding for the Lead Hazard Control and Healthy Homes Programs has been flat-funded at $110 million, with $83 million for Lead Hazard Control grants, and $25 million for the Healthy Homes Program respectively, down from $140 million just 5 years ago. And we know the job has not been done. With millions of American homes still containing lead-based paint, I am concerned that your budget just does not address the serious need.

Are the resources that have been provided in this bill sufficient to fund the need for this program? For instance, how many grant applicants are turned away due to the lack of funding? How does the Department prioritize who receives these grants? And what other sources of funds are available to remove lead paint from homes?

Secretary CASTRO. Thank you very much for your focus on this, Mrs. Lowey. I appreciate it very much.

You are, of course, right, that what happened in Flint was a real shame. At the same time, we know that the administration, this administration has marshaled a lot of resources to try and do what we can to address the needs of the residents of Flint. HUD, in fact, is involved in that response, and has actually had somebody, as part of the Strong Cities Strong Communities Program, on the ground in Flint for over a year. But let me just address more specifically your question.

I wish that I could say that the resources that HUD has received in the past met all the needs. As you heard earlier in testimony, I believe that we are able to serve about half of the eligible applicants in the program, the Lead Hazard Control Program. In fiscal year 2015, there were 47 eligible applications, about $141 million of requests that went unfunded. So you are correct that the need outstrips the resources that we have. There are other resources aside from this grant that can be used to address lead issues. One of those, for instance, is CDBG. Community Development Block Grants can be used. They are flexible funding. So I wish that I could give you the impression that these resources can meet that need. They cannot.

It is true that we have had to make tough choices in the budget. And as I mentioned in my testimony, 85 percent of our budget request is just, is re-upping what we already, the folks we are already serving. And what that has done over time is put more and more of a crunch on everything else, whether it has been CDBG or Lead Hazard Control grants, but not because we don't believe that these are worthy initiatives. We continually look for more ways to make these resources go further, for instance, whether through reaching out to philanthropic organizations or providing technical assistance to local and State communities.

You also asked about the process itself. Of course, it is a competitive process. And so in terms of prioritizing, we look for those communities that have the greatest need and also put together compelling plans on how they would address lead-based paint in that community.

Mrs. LOWEY. Now, you have about 56, maybe we should talk about the Healthy Homes Program another time. Because you have been so gracious to give me the time. And I thank you. And thank you, Mr. Secretary. I appreciate it.

Secretary CASTRO. Thank you.

Mrs. LOWEY. And I look forward to working together.

Mr. DIAZ-BALART. Thank you, Mrs. Lowey, again, for being so considerate with your time. It is greatly appreciated. Chairman Rogers.

Chairman ROGERS. I would be happy to yield to Mr. Price. I don't think he got to finish his round.

Mr. PRICE. I will take the turn that Mrs. Lowey would have. That is fine.

Chairman ROGERS. Mr. Secretary, last year, the HUD inspector general published an audit that found that there were more than 25,000 high-income earners living in public housing. These over-income families are taking up very valuable spaces while over 500,000 qualified families are stuck on a waiting list. The IG estimated that taxpayers will shell out over $104 million a year to keep these people in public housing that are not qualified. They are making more money than allowed. What is being done to check that?

Secretary CASTRO. Yes, thank you, Chairman Rogers, for the question. Of course, this did receive a lot of attention. And I want to let you know very plainly that this is a concern that we share. I am pleased to report that we are working hand-in-hand with the inspector general to address this issue.

And so we have done three things: First, on September 3 of last year, we sent a letter to all public housing authorities strongly encouraging them to adopt policies that would transition out extremely over-income individuals, like some of the ones that were highlighted in the inspector general's report. On September 8, just a few days later, we published the fiscal year 2015 flat rent notice, which is going to result in a rent increase for most families paying flat rent and may lead them to choose market rate housing, give them that extra incentive to move on.

And on February 3 of this year, we published an advanced notice of proposed rulemaking, seeking public comments on a potential new rule to strengthen oversight of over-income tenancy in public housing and to ensure that people residing in public housing continue to need housing assistance from HUD after admission. And this may be the most important part of our response. This advanced notice of proposed rulemaking gives us the opportunity to seek feedback and to ensure that we go forward with a rule that will address the concerns the inspector general raised.

If I may, the last thing I would just briefly say is that while I do agree that these housing authorities need to be tougher, especially in the cases that were highlighted in the report, I think through conversations with the Hill, with, I think, the staffs of different congressional Representatives, also as reflected in Chairman Luetkemeyer's bill, 3700, there is some nuance to this. Because sometimes you have hard-working folks that barely get over that income limit, they become self sufficient, they may fall backward for a period of time. You also want to encourage folks to work their way up so that they can get up and out.

And so we do need to set this policy in a way that makes sense so that you are encouraging them to work harder and increase their pay so they can move out, but not cut them off the second that they do that and disincentivize them from actually getting a pay raise and becoming self-sufficient.

So there is some nuance in here. And I think that is reflected in the legislation that is being considered and the conversations that we have had. And we hope that that will be reflected as well in the final rule.

Chairman ROGERS. Is 25,000 a fair figure?

Secretary CASTRO. The inspector general did find just over 25,000 out of 1.1 million public housing units, yes.

Chairman ROGERS. You have no argument with the number?

Secretary CASTRO. We don't have any argument with that number. What I would point out, though, is that the vast majority of those were barely over the income limit. And some of them fall out of the income limit and back into the income limit. And this is, I think, what we need to address successfully in crafting a rule.

And we welcome the feedback of members of this committee and also have enjoyed working with others who have asked, including Chairman Luetkemeyer and his staff.

Mr. ROGERS. What is the timetable for the new practice?

Secretary CASTRO. For which part?

Mr. ROGERS. The new rule that you are talking about.

Secretary CASTRO. We anticipate that—we have done the advanced notice of proposed rulemaking. So the next step will be a notice of proposed rulemaking later in 2016. And I anticipate in 2017, we would have a final rule.

Mr. ROGERS. Well, I understand your point about not cutting them off the next minute. But that income rule is there for a very real reason. And there are 500,000 qualified families, according to the inspector general, waiting to move in that are qualified under the income level. So it is not fair to them. Do you agree?

Secretary CASTRO. You and I, we don't have a disagreement there. And that is why, as you can see from these steps, we have moved forthrightly on this to address it.

Mr. ROGERS. Thank you.

Mr. DIAZ-BALART. Thank you. Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, let's turn to the Choice Neighborhoods Initiative. This is a program that transforms aging public housing developments into vibrant communities. It is a unique program in the HUD portfolio in terms of its reach and scope. It builds on the success of the HOPE 6 Program which I know firsthand made a dramatic impact, particularly in Raleigh, our capital city in North Carolina.

Congress has provided funding for Choice Neighborhoods since fiscal year 2010. I, of course, have been proud to support it. But I want to ask you to reflect on how we can improve this program, what kind of success we have had so far. I wonder if you would cite particular successes, either now or for the record. Are there particular cities, communities that demonstrate how Choice Neighborhoods can work and how, in your view, it should work?

Secondly, how close are we coming to meeting the demand for this program, the meritorious applications that would make good use of these funds? How many applicants apply for each round of implementation grants? How many were awarded? What is the level of meritorious applications not awarded? Can you give us some sense of what kind of demand you are dealing with?

Also with the implementation grants, which is what we are mainly interested in here, the grants that actually carry out the transformation we are talking about, what kind of success have you had, and have grantees had, in leveraging outside funding to supplement this? That is a hallmark of many HUD programs, of course. And I wonder how it works here.

And then, finally, if you could address the smaller grants, of course, they are much more numerous, the planning grants, much smaller, much more numerous. Talk about how that is working, what kind of outcomes you have seen there. Some, presumably, lead to implementation grants. But all cannot. There is no way all those planning grants could lead to a full implementation grant. So what do they lead to? I mean, what kind of evidence do you have about the kind of leverage the planning grants give? And what have we seen there in terms of the ability, even if a community doesn't get an implementation grant, the ability to carry forward after the planning grant and, nonetheless, get support for serious work.

Secretary CASTRO. Thank you for your past support and your vocal support of Choice Neighborhoods.

The value of Choice Neighborhoods really is that it is place-based work. And it is breaking through silos. So as you know, building on HOPE 6, this says it is not just about housing, it is also about housing and transforming a neighborhood. What can you do on housing and transportation, housing and education, housing and the availability of fresh food, and housing and the environmental conditions around the housing.

A couple of good examples of this, I visited a neighborhood in Boston, I believe the name was Roxbury, in Roxbury Heights, but I will check that. And they were one of the first Choice Neighborhood implementation grant recipients. They revamped their public housing, including mixed-income. And close to the public housing site, they also have an incubator that works on incubating small food-related businesses. So budding caterers and other folks who sell, actually packaged food, are able to take up space there and grow their business. It is helping to improve that neighborhood in Boston.

A second example is, the Woodlawn neighborhood in Chicago, which is not too far from the University of Chicago. They have partnered up there with the University of Chicago, for instance, to help provide some safety, police protection. They have included recreational activities for young people and also opportunities for seniors. And they have done it in a way that is great because, again, it is not just about providing housing, but it is also about improving quality of life.

You asked about leveraging of other dollars. Maybe the best example of this, is that in New Orleans, for instance, in the first phase of a build-out of the Choice Neighborhood implementation grant that they got, for the housing, at the end of the day, only 16 percent of those funds came from that Choice Neighborhood grant. So, obviously, they were able to leverage a series of other types of financing to get that housing done.

The planning grants, which traditionally have been $500,000 planning grants, are important. And a number of those planning grantees have become implementation grantees, although, as you say, not all of them. But they have been a good base from which those communities have either successfully gotten implementation grants, a good example of this was San Antonio, my home town, or they have been able to leverage philanthropic support or other types of grants, maybe not from HUD or sometimes from HUD.

Mr. DIAZ-BALART. Thank you, Mr. Secretary. Mr. Joyce, you are recognized, sir.

Mr. JOYCE. Thank you, Mr. Chairman. Good afternoon, Mr. Secretary.

Secretary CASTRO. Good afternoon,

Mr. JOYCE. Prior to my arrival here, I was a prosecuting attorney for 25 years in Geauga County. One of my chief duties was the responsibility to represent the county, planning commission, and townships in how we adapted to local zoning rules. I have got to tell you, I have great concern with your Affirmatively Furthering Fair Housing Rule or AFFH Rule, and what it means for my constituency.

By enforcing the rule, you and your Department are using your authority like a hammer. And you are robbing our communities of their rightful say in local zoning laws. This has caused great concern throughout my district and is, what I believe, one of the grossest current examples of government overreach.

I would like to take a few moments, if we could, to examine this rule, and how in the eyes of your Department, it is equipped to fundamentally restructure our unique communities. To begin, which area of the budget does your Department plan to utilize for research and gathering the opinions of local stakeholders?

Secretary CASTRO. Are you referring to the work that we have already done or the work that is going to be done as part of each community's assessment of fair housing as it is rolled out now?

Mr. JOYCE. Yes, as you are going forward, where in the budget do you have a plan that takes into consideration the community's concern.

Secretary CASTRO. Well, as you probably know, PHAs are able to use operating funds. There may be local or State resources that they are able to use. And so there are a number of fund, potential funding streams that they could use.

Mr. JOYCE. Okay. Now how is your Department's research process structured so that its data establishes an accurate and thorough level of knowledge of each of the local communities' wants and needs? And who ultimately executes the AFFH programming from the Federal level?

Secretary CASTRO. Thanks a lot for that question. It is an important one. This is being done, the process has been done jointly. This has really been a collaboration across HUD to make sure that we get it right. Because historically within HUD, there has been this tension between our Fair Housing Office sometimes and our community planning and development, in other words, CPD giving out the grants and then Fair Housing sometimes clamping down, having to clamp down because of noncompliance with the Fair Housing Act.

So in order to get this right, we went out and got input from local communities, that was a part of the process. And then internally at HUD, each of these program areas work together also with our policy development and research group.

So you asked about the data, for instance, the tools that we're going to give them. That was a collaborative process. On December 31 of last year, our tool effectively went out to these communities that are, the 22 communities that are in the first round of respondents for AFFH. It is the latest data. It is more specific than we have ever had. It is more comprehensive than we have ever had.

And I would also, just want to point out, Congressman, because you asked the question that I think a lot of people are asking. And there is this impression among some folks that HUD is going to be very prescriptive. You know, we can't tell a local jurisdiction you have to adopt this zoning law, planning law, or land use restriction.

That is not what AFFH is about. It is about giving these communities the data that they need to make prudent decisions about how they invest these Federal taxpayer dollars and how they also live up to the Fair Housing Act requirements. But we are not telling them specifically you have to do this here or else. We cannot do that under the law.

Mr. JOYCE. To be specific, though, can you give me an example of where this research process has already been employed and touch upon its level of accuracy?

Secretary CASTRO. Yes. Actually there was a pilot program that touched I want to say it was about 30 communities, that was a kind of a precursor to AFFH where communities drew up these plans with data and stated their own kind of aspirations along Fair Housing lines and also how they connect the dots of housing and transit and general quality of life. And so we have a good set of about 30 communities that went through this. There was a benefit to those communities.

There was also a benefit to HUD in getting to see that process and understand how we can provide good data to these communities and then let them lead the effort to come up with their plan. We do not intend to come up with a plan for them. This is going to be a locally driven effort to come up with these plans.

Mr. JOYCE. Thank you. I see I have exceeded my time limit, Mr. Chairman. So I will pass it back to you.

Mr. DIAZ-BALART. Thank you very much, sir. Mr. Quigley, you are recognized, sir.

Mr. QUIGLEY. Thank you, Mr. Chairman. Good afternoon, Mr. Secretary. Let's go back to lead, lead paint and my hometown, Chicago. As you are aware, we have a lot of incidents relating to Section 8 housing and lead-based exposure.

Since 2012, there are about 178 children that we know of that have experienced elevated lead levels. I have two thoughts on that, I believe under the current Department regulation, the lead-based paint standard for public housing is four times the CDC-recommended level. Are we working to adjust that through rulemaking or some other process?

Secretary CASTRO. You are correct. And we are working with OMB on that. We don't have anything to announce now. But that is something that is on our radar screen and we are working toward.

But let me just say as well, since fiscal year 2013, that every notice of funding availability for lead assistance grants has recommended the CDC definition of elevated blood lead levels. So in the work that is being done out there, much of that reflects the CDC definition, even though, you are correct, that right now there is a discrepancy between the CDC definition and HUD. And we would like to bring that in conformance.

Mr. QUIGLEY. I appreciate that. Also I understand that the housing agencies are required to inspect the premises before people move in and something like a year after that as well. But as far as I understand, that is about the only way they are determining whether there may be lead-based paint issues. Is there something else we can do to determine the level of risk out there?

Secretary CASTRO. Well, certainly the communities that are part of our Lead Hazard Control grants are those that have identified issues in their public housing or other housing. So they are affirmatively addressing these issues and remediating them. Along with our Healthy Homes funding, it often helps to improve the overall health of that household. But we are always looking for ways that we can be more effective in the future. And so we would love to follow up with you on that.

Mr. QUIGLEY. Yes, I would like to work with your folks in Chicago as well. Second point, as you know, LGBT youth have an extraordinarily high rate of housing instability and homelessness, more than the general population. And transgender Americans are the hardest hit, with 1 in 5 transgender Americans experiencing homelessness. On behalf of the LGBT Quality Caucus, I want to thank you and support you for your proposed rule dealing with this issue. It is a crucial step forward in ensuring transgender people seeking emergency housing and shelter are able to find the protection they need. How do you plan to implement this rule? Are there specific issues you are going to have to address?

Secretary CASTRO. Well, first, thanks for the recognition on the effort. We believe that this is important. As you know, beginning in 2012, with our Equal Access Rule, we have started to address concrete issues that present themselves to the LGBT community when they seek housing and shelter.

This rule addresses the responsibility of shelters and single-sex facilities. That is in process right now. And this is something that we are working to get done during this administration. And once it is rolled out, it is also clear that it is going to take I believe quite a bit of partnership with local communities and providers to ensure that this rule is implemented smoothly. But I believe that, you know, just as the rest of the Equal Access Rule has been, that we can do that.

Mr. QUIGLEY. And I think some of this is going to be your help in working with the communities and the shelters on education and some training in understanding the specific issues here and how to help people who are at their most vulnerable point.

Secretary CASTRO. I agree.

Mr. QUIGLEY. Thank you so much for your service.

Mr. DIAZ-BALART. Thank you, Mr. Quigley. Mr. Yoder, you are recognized, sir.

Mr. YODER. Thank you, Mr. Chairman. Mr. Secretary, welcome back to the committee. I know that you were in Kansas City earlier this year. And I represent Kansas City, Kansas, amongst other places. And you were there to talk about ConnectHome. And I appreciate you coming to our area.

I wanted to just talk to you a little about that program. You know, Google Fiber came to Kansas City and provided a real opportunity, we were one of the first communities in the country, to have this high speed Internet. And one of the challenges that quickly arose is that we have a digital divide. We have citizens, low-income families that have no access to the Internet in significant portions.

And so I guess I just wanted to hear from you how big is this a challenge across the country? It is certainly a challenge in my community. How much of this is a priority for your agency? And what can we do in terms of public-private partnerships to really resolve some of these discrepancies?

And I think this is one of those areas that ought to be bipartisan in particular because this is a bottleneck on access to opportunity. And if we are serious about giving people the tools to succeed in this country, giving them the levers to rise out of poverty, if they don't have access to the Internet, it makes it that much more challenging for them. So I wanted to turn that over to you and hear your thoughts on those questions.

Secretary CASTRO. I appreciate the opportunity to speak to something that, I agree with you, I believe it ought to be bipartisan, as other issues have been before this committee that we are very proud of.

Number one, this is a great example of a public-private partnership. All but $50,000 of this effort is being invested by the private sector, Internet service providers, and non-profits. ConnectHome is an effort to connect up residents of public housing in 28 communities, 27 urban communities and one tribal community, the Choctaw Nation in Oklahoma, to the Internet because the vast majority aren't connected now. And Google Fiber, as well as Sprint, which is right there in the Kansas City area, are great participants in this.

And the idea is that we believe that folks of modest means need 21st century tools in order to compete in this 21st century global economy, if we expect them to become self-sufficient.

So this effort will connect up to 200,000 children, and we are actively now working toward expanding that. In this budget, we requested—because, remember, right now, it has only been $50,000, plus the staff time, that has been devoted to this. We are requesting $5 million toward ConnectHome for those instances where, just with a little bit of a public investment, we might be able to get a community hooked up, because we think that those dollars can go very, very far. And the fact is that almost all of this has been private sector so far.

At the end of the day, I believe that this is going to mean that we avoid more intergenerational poverty in communities in the United States, so that those kids, especially that do get an Internet connection, they are more likely to do their homework and apply for college, and working-age folks, who can apply for a job, you are going to improve their upward mobility through this Internet connection.

Mr. YODER. I appreciate your leadership there, and I appreciate your coming to my community and highlighting that as an important investment for helping children rise out of the poverty.

I wanted to turn your attention to your proposal to support the administrative support fee on the FHA lenders again. And I am pleased to see that that has a sunset clause this year. I have a few questions about how it is to be implemented. You know, Congress, first of all, has rejected this proposal, so I am not necessarily pleased to see it back, but I do have some questions about how you suggest it would be implemented.

First of all, I think it says that it would be charged on prospective basis, but in your budget, it also says: Mortgages that were insured under this title during the previous fiscal year. So is this prospective or retroactive, can you explain the disparity?

Secretary CASTRO. Well, it is prospective from when it is enacted, but the fee will be assessed at one point in the year, at the end of the year, so at some point in the year. So I think that is what is being described. I don't think I have seen the text that you are looking at. But I believe that is what is being described. It is going to be on transactions going forward. It is not going to be going backward.

Mr. YODER. I think it states the fee will be calculated based on mortgages that were insured under this title during the previous fiscal year.

Secretary CASTRO. That is right. But if we started it tomorrow, then the fee would be assessed after that one year, and it is talking about going backward to capture everything after it was enacted.

Mr. YODER. Also, on your proposal, it says, you know, small lenders, I think, would get hit with a pretty hefty fee because of the complexity of the formula. Just two questions here. One, when you base the fees on lenders' prior years of business, wouldn't it a whole lot easier just to assess a nominal fee directly on the mortgage at the time it is made, like the USDA has proposed? And then, just lastly, your request is for $30 million, but you also say that the fee could be as much as four basis points. FHA is projecting to do $200 billion in business next year. So, if the math is right, four basis points will be $80 million, or about a quarter of a million dollars over the life of the provision. What are you going to do with this money, and is this the right number? Which is it?

Secretary CASTRO. Yeah. Good question. We have actually said between two and four basis points now as a recognition of those figures that you cited. So we are also aware of the USDA's approach. It is a little bit of a different approach, and we did give thought to that. We actually believe that this—and one of the reasons we pursued this is because we thought it might be more manageable to smaller lenders.

As for what it would fund, this $30 million would fund investment in our IT and ensuring that our risk management is as strong as possible.

So, you know, we are confident that this would help us be a stronger organization at FHA, that it would directly relate to the ability to work with lenders effectively and for them to understand how they stand in comparison to their peers. And this is, I think, the third year that we are asking for this, but during this time, we very much have reached out to the industry and worked with them in terms of taking suggestions. That is why you see the change that it is prospective, that it is limited to 3 years, that it has a sliding scale of what it could be in terms of the basis points. All of that is in response to feedback that we have gotten.

Mr. DIAZ-BALART. Thank you Mr. Secretary.

Mr. Cuellar.

Mr. CUELLAR. Thank you, Mr. Chairman.

First of all, welcome, Mr. Secretary. Good to see you again.

Let me ask you about colonias. I think you are very familiar with colonias. Those are the Third World condition of places that we have along the border: no water, no sewage. Housing is something that is needed. Sometimes they don't even have electricity also, and it is in the United States. We added some language through the help of the chairman and the ranking member to make sure that the colonias were specifically eligible for the Self-help Homeownership Opportunity Program.

Could you tell us what your plan is for the colonias, number one? And then, after that, if you can talk a little bit about your upward mobility project also. I think that is the CDBG money, administered by the HUD and HHS, and see what your work is and what your vision is on that also. So it is the upward mobility and then colonias.

Secretary CASTRO. Okay. Thank you, Representative Cuellar, and good to see a fellow Texan.

Mr. CUELLAR. Yes, sir.

Secretary CASTRO. We have, in this budget, we are making a request that we made last year, and we really do believe that this would help serve our colonias better. As you know, there are colonias, a couple thousand of them, over four States: Texas, New Mexico, Arizona and California. And, currently, there is a 10 percent CDBG set-aside for colonias in those four States. What we are asking for in this fiscal year 2017 budget is that we take that up to 15 percent but that it still be at the discretion of those States.

Mr. CUELLAR. Yeah. And let me emphasize—because I did ask for that, and I am going to ask the chairman again—this year, it has only given the authorization for the States—let's say the State of Texas, New Mexico, Arizona, California—if they so desire, they can go up to that.

Secretary CASTRO. That is right. Right now, three of the States, only California,but the rest is not, but the rest of them are already maxed out at that 10 percent. And so this would give them the authority to go up to 15 percent. As you mentioned, these colonias oftentimes in these States, these are the neediest communities by far in these States, with conditions that require a tremendous amount of attention in terms of infrastructure, in terms of housing, and so forth. And we believe that this is a modest but important measure that would help improve the quality of the life there.

As to your other question, this is the second year that we are proposing Upward Mobility initiative. So the idea behind this is that we want to give our grantees, the CDBG grantees and HOME grantees, as much flexibility as possible. And the Upward Mobility initiative would combine, would allow up to 10 communities, States or localities, to combine four sources of funding, CDBG and HOME from HUD, as well as social service block grants and community service block grants from HHS. As a pilot project going forward, allow them to combine those funds for the allowable uses and basically be able to get a bigger bang for the buck.

On top of that, we are requesting $300 million in mandatory appropriation for investments in communities that would allow that flexibility, so further proactive investments along those lines. And I believe that this is one way that we are trying to fill this gap that was spoken of in terms of CDBG, that it would be an excellent way to see what some of these communities can do when we further give them flexibility and have a good impact.

Mr. CUELLAR. All right. Thank you very much.

Mr. DIAZ-BALART. Thank you, Mr. Cuellar.

Mr. Young, you are recognized, sir.

Mr. YOUNG. Thank you, Mr. Chairman.

Welcome, Secretary. I want to talk about a Des Moines Register op-ed that was in the paper last summer. Maybe you have not seen it, but there are a few issues in there you have probably heard about regarding some waste, fraud and abuse. And several issues are highlighted, including an administrator who was sent to prison for facilitating a $1.5 million government loan in return for nearly $40,000 in kickbacks, but was never disciplined and allowed to retire. Another concern raised is a HUD employee kept on the payroll for 19 months after he was jailed on charges of stalking, threatening to kill, and accessing HUD computers to obtain information on his victims. I raise these issues because we share the same goal of ensuring funding for HUD is spent on the most vulnerable in our communities who are in really difficult situations. And as the editorial states—and we will get you a copy of this—quote: "Every tax dollar lost to waste, fraud, and abuse, and incompetence is a dollar not spent on providing shelter for the poor and those who need it."

Can you comment on what steps HUD is taking to address these types of serious personnel problems, prevent them in the future, and increase accountability for taxpayers? In other words, how does this happen, and how do we get to keeping our eye on this and making sure this doesn't happen again?

Secretary CASTRO. I appreciate the opportunity to address that. You know, I had not seen that editorial, but look forward to taking a look at it.

Number one, we are setting a culture of accountability at HUD. One of the first things that I did within—I believe it was the first month that I was there, maybe the first couple of weeks—was to send out a joint letter with the inspector general that went out to all employees, encouraging them to collaborate with the inspector general on any types of reviews or investigations that are happening and make sure that we have a positive working relationship so that we can root out more issues like this.

Secondly, we have increased our training for employees, including ethics training, so that employees understand the standard that we expect them to hold themselves to and that we will hold them to.

Third, as I mentioned earlier in my testimony, we are in step with our inspector general on the overwhelming majority of recommendations that he has made, and we are taking implementation of those recommendations seriously.

Fourth, we are trying to improve our hiring process so that we get the best and the brightest from the beginning. I would say that these instances that you point out are an aberration. The vast majority of HUD employees are honest, hard-working people. But we also believe that we want to always improve as an organization. One of the things that we are trying to do is improve hiring. We have recently partnered, for instance, with Toyota, who came in and worked with our hiring folks to improve the hiring plan process. And we continue to work through the hiring process in general so that we can get the best folks available out there. And we are working with our employees to engage them and provide an organization that listens to them, I think, more effectively so that they feel more engaged, and the good ones are likely to stay on longer because of that. Our Employee Viewpoint Survey scores went up significantly this year. HUD was the most improved mid-sized agency. So we are doing all of those things and others to try and create a HUD that is stronger, that is more responsive, and is more likely to avoid some of the individual instances that you pointed out.

Mr. YOUNG. I certainly, appreciate that. And I don't mean to infer that—we only hear the bad things that happen out there on the news, and so many positive things are happening as well with the employees. So thank you for instituting the ethics training and the personnel programs.

Finally, I want to comment on VASH, the Veterans Affairs Supportive Housing. You mentioned early on in your testimony a 36-percent decline in veterans homelessness. That is great. Can you talk about how you come up with that data and track that issue? And then, I notice in your budget request you really are asking only for $7 million for VASH, and that is really for tribal justification only. My concern with that is, is that an inference that we don't have a veterans homelessness problem?

Secretary CASTRO. Let me answer that part, first. That is an important question, of course. It is not. Number one, other resources that we are dedicating serve veterans as well. So, for instance, when we request, as we are in this budget, additional resources for housing choice vouchers, for permanent supportive housing, for rapid rehousing, all of those impact the veterans. The lack of a request this year for VASH is a recognition that we believe, with regard to VASH vouchers, that we have the resources we need to address the challenge of veteran homelessness there, as VASH vouchers can. We were proud to begin Tribal HUD–VASH. In fact, we awarded the first series of allocations in December of 2015. We see a continuing need there. And let me just, again, thank the committee on both sides of the aisle, because I tell folks in public all the time that this really is an instance where I think things worked out the way that they should on behalf of veterans. The resources have been appropriated. HUD and the VA have been working with local communities to get these work vouchers on the street. And I have to say, the teams that work on this are probably the most active and passionate teams on either agency for obvious reasons.

Mr. DIAZ-BALART. Mr. Secretary, on that note, I am going to have to——

Secretary CASTRO. Okay.

Mr. DIAZ-BALART [continuing]. Ask you to wind down.

Secretary CASTRO. They have improved the process, and we will look forward to continuing to drive down that number.

Mr. YOUNG. We will have further conversations.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Young.

Mr. Secretary, the FIFO issue is a major problem, and we kind of talked about this before. It makes it impossible for you to deliver auditable financials, and even worse, it is causing HUD to violate Federal law. So can I have a firm commitment from you that this accounting problem will be corrected in time for your 2016 audit?

Secretary CASTRO. Well, I can tell you that we are working with the GAO on this issue right now as well as with the IG. You are right; it is an accounting issue. We don't believe that we are violating the ADA on it, but I can pledge to you that we will work diligently with the GAO and IG on this to resolve it.

Mr. DIAZ-BALART. Again, Mr. Secretary, you know, I want to work with you. This is a hugely important issue. So, you know, let's just make sure that we focus on that. And I am, obviously, willing to work with you to be helpful.

Secretary CASTRO. Will do.

Mr. DIAZ-BALART. Let me go to the administrative fees. You are requesting $2.1 billion for administrative fees, a $427 million increase, which is a 26-percent increase above last year. Now, we all understand the importance of supporting public housing authorities so that they can efficiently run their programs. But does it really make sense to ask for such a—I mean, it is a huge increase to the administrative account.

Secretary CASTRO. This is an issue that I believe goes to how we can ensure that we have a housing choice voucher program that is more efficient, that is stronger, serves all of those voucher holders better. The fact is that over the last several years, we have only dedicated about, let's say, between 70 and 80 percent of the admin fee that ought to have been dedicated, appropriated to housing authorities. What has changed is that we undertook an admin fee study to understand what was the appropriate level that we ought to be investing for the administration of these vouchers. Based on that, we have made this request to increase the admin fee. This is important for housing authorities because, over the years, they have been asked to do more and more with less and less. And we believe this is the right level of funding to ensure that this is a well-run program, and it is a very big program. It is an important one, and we want to make sure they have the resources to get it right so that we avoid bigger problems in the future.

Mr. DIAZ-BALART. Sure. But I see HUD has had a, really, frankly—and that is a good thing—has had a fair amount of success leasing up units, and PHAs have been able to lease up nearly all of the available units in the voucher program in the past 2 years. So, again, I don't want to punish you for your success. But, I guess it begs the question, if you are meeting your leasing milestones, then why the need for more administrative overhead?

Secretary CASTRO. Well, I would just say the resources out there for administration are stretched very thin with these housing authorities. So they have done a commendable job in many instances of trying to stretch those resources as far as possible.

I also understand, of course, in the budget environment that we are in, this kind of expense is probably not the first thing that folks think about, but it is tremendously important that we adequately resource these housing authorities so that they can continue to do a good job and get even better in the administration of the program.

Mr. DIAZ-BALART. My understanding is that you are developing, but you have not yet implemented your new administrative fee structure. So wouldn't it make sense to hold the line on spending for this account until you have actually finalized the new administrative fee formula?

Secretary CASTRO. We believe that we do know the best approach based on the administrative fee study, and so that gives us a confidence that we understand the level of the appropriation where that ought to be, and that is reflected in the request.

Mr. DIAZ-BALART. And, finally, what are some efficiencies that the PHAs—I don't know why that is hard for me to say—could implement so that they can keep their overhead expenses down?

Secretary CASTRO. You know, there are a number of them, actually, across the board. In fact, some of them are addressed in Chairman Luetkemeyer's Housing Opportunity Through Modernization, H.R. 3700, legislation. But, basically, they center around different things. For instance, giving flexibility with regard to inspections and income verification, especially for smaller housing authorities so that they are not as administratively burdened. They can do things other than have to routinely check on the same information year after year that oftentimes for many of the residents is staying the same. If you have, for instance, a senior resident who is on a fixed income and that is demonstrated on record to the housing authority, there is really not a reason that they ought to be verified every single year. That can go to once every 2 or 3 years. Those are the types of things that we are working—we want to work with housing authorities on in order to reduce their administrative burden.

Mr. DIAZ-BALART. Thank you, very much, Mr. Secretary.

The ranking member, Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, before moving on to other questions, I want to briefly return to the initial question about Choice Neighborhoods, because it was a rather complicated question, and certain aspects of it didn't get answered. You might want to respond for the record on some of this, but I am eager to get on the record one way or the other the answer to the question I ask about the level of demand here, the kind of ratio of meritorious proposals that—implementation grants now we are talking about—the kind of ratio of meritorious proposals to what you are able to fund, given your appropriation in recent years.

Secretary CASTRO. Yeah. So, most recently, there were 33 implementation applicants for five implementation grants that were awarded.

Mr. PRICE. What time period does that cover?

Secretary CASTRO. Well, the grants that were last awarded a few months ago, so this would cover the last fiscal year's grants, which was, I believe, fiscal year 2014, 2015, just a couple of months ago where these were awarded.

Mr. PRICE. All right. So five grants. And how many applicants?

Secretary CASTRO. Thirty-three.

Mr. PRICE. Thirty-three. That is fairly typical.

Secretary CASTRO. Also, you asked about planning grants. We awarded seven planning grants. We had 51 applicants for those grants.

Mr. PRICE. All right. So that is fairly typical of recent cycles, I assume, that ratio?

Secretary CASTRO. It is. You know, Choice Neighborhoods is very popular out there. There is a lot more need than we are able to dedicate resources to, and that is one of the reasons that we are requesting a significant increase this year from the $125 million that was appropriated last year to $200 million.

Mr. PRICE. Let me just quickly register a question about this new category of grants that you are proposing, the so-called planning and action grants. That aims at smaller projects. I wonder what kind of projects you are looking at there? I think I will ask you to do this for the record, because in asking the question, I am somewhat concerned about proliferating too many small and modestly sized grants in a way that begins to eat away at the limited funding we have for implementation grants. I mean, after all, the implementation grants, the larger grants, the more comprehensive projects, are what Choice Neighborhoods is all about. So I am going to ask you to elaborate for the record how these smaller grants, especially this new category, might—what kind of volume you are anticipating there and what the budget impact would be.

Secretary CASTRO. We would be glad to. As you know, this is the first time we were—this is a new category, and we are excited about it. But we would be glad to elaborate on the record why that is and how many we anticipate making and so forth.

Mr. PRICE. Yes, and of course, the impact on the main item, which is the implementation grants.

Now, housing for the disabled and the elderly. I raised this in my opening statement. You know, Mr. Secretary, many States are struggling to comply with the Olmstead decision in terms of housing for the disabled. We need to do a lot more to integrate people with disabilities into their communities. And this mismatch is widespread between the housing available and the housing required to meet this goal.

There is also a dearth of housing for the elderly, the kind of need that the 202 program has historically addressed. There is a shortage of available units, 10 people waiting often for each unit, yet this budget request seeks no funding for additional units of housing for people with disabilities or the elderly, 202, 811. In the years past, the request has included new resources. I wonder why the request is not more ambitious, and just on disabled housing, in particular, how can HUD leverage other programs like HOME, perhaps, to create units to further Olmstead to compliance or the mainstream voucher program, the tenant-based Section 8? Are there other ways to get at this issue besides the conventional 811 program?

Secretary CASTRO. Well, there are other ways. In fact, we are making a significant request of housing choice vouchers. And, for instance, in the 12-month period from January 2015 to January 2016, in our HCV program, 22 percent of new admissions to the HCV program were non-elderly disabled families with no children; 7 percent were non-elderly disabled families with children; and another 7 percent were elderly disabled families with no children. So, in total, 36 percent of HCV admissions were disabled families. And I point that out just to say that we are serving individuals who are disabled in several different ways.

You are right, 811 and 202 have not been funded for new units. We did have a request last year, as you probably remember, for 700 new units of 811. Each year, as we make our budget request, we do have to make these challenging choices, but it is something that is a priority and that we believe that we can make progress on in these different ways.

With regard to elderly housing, I think it is the same there. We are looking forward to utilizing that fiscal year 2014 appropriation to get a better understanding from our research project on 202 housing of the link between housing and health and how we can create savings and ensure that communities are doing everything they can to provide investment in housing and in supportive services upfront and save money to Medicare and Medicaid later. HUD is working with HHS to provide technical assistance to States that are looking for ways to utilize Medicaid dollars to provide to elderly and disabled residents. So there are different ways that we are approaching this challenge. Of course, you know, I don't disagree with you that this is very important and that new units have not been funded.

Mr. DIAZ-BALART. Thank you, Mr. Secretary.

Secretary CASTRO. We are going to do what we can.

Mr. DIAZ-BALART. Thank you, sir.

Mr. Joyce.

Mr. JOYCE. Thank you, Mr. Chairman.

Mr. Secretary, back to this AFFH example that you were giving to me prior to our getting cut off.

You mention that there was some prior research that went into it. Could you give the subcommittee an exact example of where it is that you are using the research and data that you glean from these communities into making decisions, while acting in concert with the community for the purpose of effectuating on AFFH outcome.

Secretary CASTRO. I would be glad to follow up with you with a list of communities and then some examples of that. I don't have those in front of me, but I know that we did engage in that. I am very proud of the team, from our policy development and research group, as well as fair housing and CPD. Because this had come up in the 1990s and it had not gotten past the finish line and it was not successful from the very beginning, they were attentive to local communities in trying to understand how we could make this feasible to them and put them in the driver's seat. And so we would be glad to share with you on the record these different instances of plans that were put together in communities.

Mr. JOYCE. Thank you. Are you familiar with the Chicago/Dubuque, Iowa, model that your agency was working on? Would you consider the movement of individuals from Chicago across the State border to Dubuque, Iowa, to be a successful example of how AFFH works for both communities, their inhabitants and their States?

Secretary CASTRO. You know, I am not familiar with that particular example. I would love to learn more about it. But to us, the point is that there are a couple of things that we know. Number one, we know that these decisions, whether they are land use decisions or other policy decisions, are best made at the local level. And so we want to respect that.

Secondly, we also know that communities—and we share an interest in them making the best use of Federal taxpayer dollars. And then, third, we do see AFFH as part of the unfinished business of the Fair Housing Act. So I want to be straightforward with you: there is a component of ensuring that they live up to the obligation of the Fair Housing Act, but we don't want to do it in a heavy-handed way. We want to collaborate with them and let them make the decisions.

In those cases where we have flagrant violations of the Fair Housing Act, where there are communities that are just completely unwilling to work on these things, then there will be enforcement. But I see that as a last resort, not as a first way to come through the door.

Mr. JOYCE. Sure.

Secretary CASTRO. So our folks have given a tremendous amount of thought to how you can put local communities in the driver's seat so that they can make the smart decisions about what ought to be invested and how in their community.

Mr. JOYCE. I am really interested to understand how moving people across State lines is somehow bettering the communities.

As you know, the other problem that we have, obviously, is foreclosures, and vacant properties, which we all know are areas that become drug houses and centers for criminal activity. These abandoned properties are a huge problem, obviously, in many communities. Do you have a plan to complement the initiative taken by the Department of Treasury, through the Hardest Hit Fund, or HHF, to refurbish these communities?

Secretary CASTRO. Yeah. You know, this is a challenge in a lot of communities, especially coming out of the housing crisis as we have. As you remember, we had NSP funding a few years ago that was very helpful to communities in this regard. Of course, that is not a stream of revenue anymore, investment. But we encourage communities to use some traditional funding, like CDBG, for instance, that has the flexibility so that they can address issues of foreclosed-upon properties.

Of course, at FHA, we also work in several different ways to avoid foreclosure, to help folks avoid foreclosure, and we have revamped our DAS, Distressed Asset Sales, program to try and get more of those properties in the hands of nonprofits that are willing to work with residents, avoid foreclosure, and also are mindful of the neighborhood impact when there is a foreclosed property. So, you know, there are several steps that we are taking.

In addition to that, let me just say that we are very proud of the housing counseling that HUD has done, HUD has funded. We are requesting $47 billion, which is what was appropriated last year. Part of that is foreclosure counseling to help avoid foreclosures. So we are trying to address this in multiple ways.

Mr. JOYCE. And I appreciate that. But, you know, we are looking at those houses that are already gone. And for lack of a better term, they are bad bones. There is nothing to be recouped, so they need to be taken down. So that is why HHF and HAMP funding are both needed. I was wondering if you have been working in concert with Secretary Lew about trying to get that money into the communities that need it the most?

Secretary CASTRO. Well, to the extent that these communities request some sort of technical assistance, our folks, of course, are in communication with Treasury, but I can follow up with you in terms of their individual communities that we have been working on together, sure.

[The information follows:]

Between 2008 and 2010, Congress appropriated almost $7 billion for HUD's Neighborhood Stabilization Program (NSP) to help the nation's communities address the effects of abandoned and foreclosed property. Demolition was one of the eligible uses of NSP funding and grantees have reported that more than 24,000 units were demolished with NSP funding. The vast majority of these demolished units were in states like Ohio, Michigan, and Indiana. While NSP funding is almost totally expended, NSP and related technical assistance efforts set the stage for subsequent demolition work with funding from the Hardest Hit Fund. Further, HUD was an active participant in Treasury's Interagency Working Group on Residential Property, Vacancy and Demolition and continues to work on other collaborative initiatives such as the Detroit Interagency Working Group, also chaired by Treasury.

Mr. JOYCE. That would be great. Thank you very much.

Mr. DIAZ-BALART. Mr. Cuellar.

Mr. CUELLAR. Thank you, Mr. Chairman.

Mr. Secretary, let me ask you to look at the HUD–VASH, the Federal rental assistance with the VA. In Laredo, we received about 15 of those vouchers. I know that there is a Point-in-Time Survey that is done, but there is something happening where we still have a lot of veterans still homeless in Laredo, even though I understand they are surveying what they use that for, to the point where, you know, even some of the veterans who have relatives in Nuevo Laredo will go to Nuevo Laredo, so they can afford being over there. And I think it is a shame that they have to go across the river into Mexico to get housing.

Could I ask you to just have your folks work with us a little closely on this particular issue? Because I will be happy to show you this, you know, big story that got written locally. I think it is a two-, three-part series about veterans, and it is just one of those issues. I know there is never enough money; I understand that. But I would ask you to, you know, if you can assign one of your best ones, Jaime Castillo or Robbie Greenblum or one of the folks in San Antonio, to work with me, but I would ask you to just work with us on this, because I know the city manager, Jesus Olivares, is here in the audience with us, and it is an issue that we have been trying to figure out, and we just can't seem to get over the Survey Point-in-Time. So I would ask you to just work—I know you are very passionate about this issue and want to work with your office.

Secretary CASTRO. Absolutely. And we are very proud, because of everyone working together, that we have seen a 36-percent reduction in veteran homelessness over the last few years. At the same time, we know that, number one, we can't stop pushing and driving that number down. Secondly, we need to reach all communities. So, for instance, from the fiscal year 2016 funding that we received, we are creating another category for smaller communities to get HUD–VASH, to more proactively work and get these HUD–VASH vouchers into some of the smaller communities at a greater level, and we believe that is going to help fill the gap out there for some of these smaller communities.

I did have an opportunity yesterday to meet with one of your council members and the assistant city manager, and my staff had a longer meeting with them, and this was one of the issues that they took up. So we look forward to following up.

Mr. CUELLAR. I think it was Councilman Roque Vela, I believe, the one that was there. And, yes, we do want to follow up, because it is an ongoing, you know, it is just shameful that they have to go to another country to get housing on that. So I look forward to working with you.

I also want to extend the invitation, again, to—I think we had talked about you going down to Laredo, so we will find a time that works and have you go down to Laredo, and the city of Laredo will be willing to host you. I know we had the chairman down there, and he saw the transportation needs that we have. The largest inland port in the United States, it is in Laredo. So we would love to host you down there sometime. As you know, you were the Senor Internacional a couple of years ago——

Secretary CASTRO. That is true.

Mr. CUELLAR [continuing]. Which is a big celebration where they recognize somebody from the U.S. and somebody from New Mexico, and the Secretary was the Senor Internacional. So, Secretary, thank you for your good work.

Secretary CASTRO. Thank you.

Mr. DIAZ-BALART. Thank you, Mr. Cuellar.

And there is no doubt Laredo is, frankly, a very special place. It really is. It is a very special place.

Mr. CUELLAR. Thank you, sir.

Mr. DIAZ-BALART. Mr. Secretary, let me just go to one more area. And, again, I thank you for being here and for being forthcoming.

I want to talk briefly about Moving to Work. And for the fiscal year 2016 bill, we gave authority to establish 100 more Moving to Work agencies. But, you know, our foremost goal, though, is to see what works well and then expand those areas across HUD programs. However, GAO and HUD's IG had noted repeatedly that HUD does not have performance measures in place to gauge the effectiveness of MTW agencies. And, worse, we have seen some agencies use MTW flexibilities, frankly, to avowed accountability or use funds for purposes other than serving the people in need.

Mr. Secretary, what is your timeframe for designating those 100 new MTWs, and what criteria for selecting the participants will be used?

Secretary CASTRO. Yes. That is a great question. Number one, the 39 MTW agencies that we have now have done a number of creative things over the years that I believe demonstrate the value of MTW. You are correct that ensuring that we have better ways to measure the outcomes that have been achieved because of MTW ought to be a priority, and it is a priority, because of the new authority that we have we will increase the number of MTW agencies by 100. That gives us the opportunity, in this new contract, with those new MTW agencies the chance to include more performance metrics and, I believe, be able to measure the value of MTW in unprecedented ways.

As to your question of how we are going to implement this, the legislation requires us to establish an advisory committee, and so we have begun work going forward to get an advisory committee together. We expect over the next couple of months to do that, to make recommendations on what this expansion of MTW should look like. The legislation gave us a number of years to accomplish the 100 MTW agency addition. So this will be phased in. We don't anticipate that it is going to happen all at once. It will be in manageable phases. I can't say right now whether that will be 10 or 15 in the first round, but I think that the advisory committee, with its expertise, will help us determine that.

But to your point of being able to measure the outcomes better, I am completely in agreement with you that this new approach ought to include more of that, because right now, frankly, I do think that there is a dearth of that information.

Mr. DIAZ-BALART. Do you anticipate that this expansion will have an actual cost, the cost in terms of HUD's, you know, staff time to review, to select, frankly, to monitor these new MTW agencies?

Secretary CASTRO. There will be a cost associated with it. And in future budget requests, we believe that it would be appropriate to provide the salary and expense increases necessary in our Public and Indian Housing program area to keep up with the additional monitoring and collaboration with these MTW agencies.

Right now, I can't tell you with specificity how much, how many people we are having to deal with this issue for AFFH as we ramp up in the Fair Housing Office, for instance. Our AFFH engagement, so I do think that there are going to be some costs associated with it. No numbers yet. We would be glad to work with the committee going forward on it.

Mr. DIAZ-BALART. And, again, and you touched about the issue of measuring performance. Any idea how you intend to measure performance so that the best practices can be documented and hopefully repeated elsewhere?

Secretary CASTRO. Yeah. Well, you know, to my mind, and certainly the folks who are working on this in our Public and Indian Housing, I believe, and the members of the advisory committee will have a more crystalized sense of this, but to my mind, the flexibility that we are allowing these MTW agencies is meant to have better outcomes in terms of self-sufficiency, for instance, of the residents of public housing.

So the kinds of performance metrics or outcomes that I would like to see measured are, you know, compare a non-MTW agency to an MTW agency and tell me, what is the average length of time that a public housing resident lives in public housing? How long is a family there in one versus the other? How have you been able to use your flexibility to create self-sufficiency faster? Let's look at the educational achievement of residents in MTW agencies versus non-MTW agencies or income levels in one versus the other. These bottom-line outcome assessments that will show us whether, you know, in a more specific way, I think, whether the flexibility that we have allowed is paying off in life outcomes of the people that we are serving. To me, that is what is most important.

Mr. DIAZ-BALART. Thank you, Mr. Castro. I appreciate that.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Let me move to public housing and, in particular, the capital backlog in public housing. You are well aware, of course, that there is a backlog of $25 billion when it comes to repairing and maintaining our public housing stock.

Congress bears primary responsibility for that, for chronically underfunding this account. I start out by saying that. However, I am concerned that HUD didn't ask for any increase in the public housing capital fund in the fiscal 2017 request. I wonder why that is so, what it indicates. I wonder if you could discuss the rationale behind that decision to provide, essentially, flat funding for public housing capital needs when it is clear we are falling further and further and further behind.

And then, secondly, I wonder if you could reflect on the impetus that lies behind Moving to Work, for example, which you have just been discussing, or the Rental Assistance Demonstration program, the RAD program, or for that matter, Choice Neighborhoods and other demonstration programs. To what extent are these programs drawing on discontent or the shortfall of adequate housing for the public—adequate funding for the public housing capital fund? I mean, are we seeing here ways of compensating for that?

Clearly, we have a problem with that essential capital fund appropriation. So I guess I am asking you very broadly, what are the strategies for dealing with it, and to what extent are they or are they not reflected in the budget before us?

Secretary CASTRO. Yes, you are right, Representative Price, that over the years, the funding has not been there to keep up with the public housing capital needs, and we do have over a $25 billion backlog in public housing capital needs. And so what you have seen is that we have had to become creative, and the Rental Assistance Demonstration project, RAD, represents one way that we have done that. The private sector analysis that we got about a year and a half ago showed that the first 57 deals of RAD, for every $1 of Federal dollars that was invested there, there were $19 non-Federal that it leveraged. So RAD has been successful in leveraging private dollars and some philanthropic dollars, I believe.

With regard to the capital housing needs that we have, you are correct that this request this year, I believe, is a $35 million reduction from what was enacted last year. And, in part, that is because we do see more activity on the RAD side. You know, we have converted 30,000 units. We already have the applications for 185,000. We have a waiting list of 11,000 units now. We are asking Congress to remove the cap, because we believe that the demand is there and that there are a lot of units that can be renovated if we would lift that cap, if we can do some of this work successfully.

But we are also requesting some flexibility so that public housing authorities can use 30 percent of their operating and capital money interchangeably so that if there is some dire capital needs that they feel have to be addressed now, that they do have some flexibility to do that.

This is, of course, the kind of flexibility that exists for MTW agencies, and in the past, we have made a broader request for flexibility, but we feel that the 30 percent flexibility request makes sense, and that it could be used for some of these needs.

Mr. PRICE. Thank you. That is helpful.

I just observe, though, that the answer you gave regarding the public housing capital fund, just like the answer you gave earlier on section 202 rental housing for the elderly and on section 811 housing for the disabled, all of that just underscores the limitations we are operating under. And this is even with a budget agreement. This is getting off of the sequestration level, but not nearly adequately in terms of the needs we are addressing.

So I hope for a good allocation this year as we write the bills. I, of course, hope and expect that we will have our usual collaborative process across the party lines. But I just am stunned by the magnitude of this task and just how much we are having to devote of this budget to simply staying in place.

Secretary CASTRO. Sure.

Mr. PRICE. So we have a lot of work to do. We, of course, look forward to you as a full partner in this effort.

Secretary CASTRO. Certainly.

Mr. PRICE. Thank you.

Mr. DIAZ-BALART. Thank you, Mr. Price.

Mr. Cuellar, further questions?

Mr. CUELLAR. No further questions.

Mr. DIAZ-BALART. All right.

Mr. Secretary, this has been very helpful. Let me once again, thank you and also your staff for your participating and your participation today and for answering our questions.

The committee staff will be in contact with your budget office regarding questions for the record. I know we will have a number of questions to submit, and I imagine I will have some, and I imagine that other members will have questions as well.

If you will, please, work with OMB to return the information for the record to the subcommittee within 30 days from Friday, we will then be able to publish the transcript of today's hearing and make informed decisions when crafting the fiscal year 2017 bill.

And, again, I look forward to working with you. Also, I have always appreciated your being fully accessible, and you know, this subcommittee looks forward to working with you as we put this bill together for this year.

Tomorrow, we will see the Administrator of the Federal Aviation Administration. I look forward to that.

Mr. Price, any final comments?

Mr. PRICE. No. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. With that, Mr. Secretary, again, our gratitude.

With that, we will close this hearing. Thank you.

Secretary CASTRO. Thank you so much.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Chairman Mario Diaz-Balart
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Diaz-Balart #1

Sober Homes

Sober homes is a name given to group homes for individuals recovering from drug and alcohol addiction. A sober home's purpose is to help addicts who have fully completed addiction treatment to transition back to everyday life in a residential, community environment, so that they can begin to assimilate into the neighborhood. It is my understanding that in 1999, the Department of Justice and HUD issued a Joint Statement on Group Homes, Local Land Use, and the Fair Housing Act. The purpose of the Joint Statement was to provide answers to commonly asked questions about group homes based upon the statute, implementing regulations and court decisions. In a letter dated July 10, 2015, HUD's Office of Congressional and Intergovernmental Relations confirmed in writing to Members of Congress from Florida that HUD planned to work with DOJ to "revise and expand" HUD and DOJ's Joint Statement.

Question: When will HUD publish the revised Joint Statement? Will the new Joint Statement offer guidance as to how local communities can regulate sober homes without violating the Fair Housing Act? Will it address how the Fair Housing Act applies to the mandatory licensing, certification, and registration of sober homes by a state or local government?

Answer: HUD and DOJ are actively working on updating the 1999 Joint Statement addressing group homes, local land use and the Fair Housing Act. HUD expects that, working jointly with DOJ, it will be able to issue a revised joint statement later this year. HUD is aware of issues that community governments have raised regarding sober homes. HUD is considering these questions as it works with DOJ to revise the guidance.

Mr. Diaz-Balart #2

Administrative Fees

You are requesting $2.1 billion for administrative fees, a $427 million increase, or 26% above last year. We all understand the importance of supporting public housing authorities so that they can efficiently run their programs.

Question: Does it really make sense to ask for such a large increase to an administrative account?

Answer: For most PHAs, the Housing Choice Voucher (HCV) administrative fees are the only source of funding for the local administration of the HCV program. The approximately 2,400 PHAs that administer HCV programs use their administrative fees to cover the costs of all of the activities required to operate an efficient and effective HCV program. The activities involved in administering the HCV program are numerous, including managing waiting lists, reviewing applications, evaluating tenant eligibility, conducting physical inspections of units, determining rent reasonableness, approving units, determining and verifying tenant income annually, calculating the amount of rent subsidy, and ensuring that landlords and assisted households comply with program requirements.

According to the Housing Choice Voucher (HCV) Program Administrative Fee Study Final Report, the vast majority of a PHAs' administrative costs are direct labor and non-labor costs for frontline HCV activities. The remaining costs are overhead functions that support the HCV program, such as accounting and legal services.

The HCV Program Administrative Fee Study was initiated and completed, with support and funding from Congress, in August 2015. The study's objectives were to measure the actual costs of operating an effective and efficient voucher program, identify the main cost drivers that account for variation in administrative costs among PHAs, and propose a new administrative fee formula based on those findings.

The Study provided clear evidence on what local housing authorities already know to be true – that current funding limits on their administrative fees do not come close to meeting the reasonable costs of operating a well-run voucher program. Only two of the 60 PHAs in the study received enough administrative fees to cover their administrative costs. PHAs make up the gap in funding by spending their administrative fee reserves, if they have them, and taking drastic cost cutting measures.

Failing to provide adequate administrative fees increases the risk that PHAs are unable to fulfill their administrative responsibilities under the program and undermines HUD's efforts to achieve key program goals, including:

- Maximizing the number of families housed through HUD's affordable housing programs,
- Serving homeless veterans and other vulnerable populations, and

- Expanding housing opportunities in neighborhoods with lower crime rates, lower concentrations of poverty, better schools, and greater employment opportunities for participating families.

The request for $2.1 billion in administrative fees seeks to fully fund HCV administrative costs under a new formula that HUD is seeking to implement for calendar year 2017. The new formula will be based on the findings from the Administrative Fee Study on what it actually costs to operate a high-performing and efficient HCV program and the factors that drive those costs. The proposed rule for the new formula is currently under review at the Office of Management and Budget and is expected to be published in early summer 2016.

Mr. Diaz-Balart #3

Administrative Fees

Question: I see that HUD has had a fair amount of success leasing up units PHAs have been able to lease up nearly all of the available units in the voucher program in the past two years. We don't want to punish you for your success, but if you are meeting your leasing milestones, why the need for more administrative overhead?

Answer: The funding increase for the administrative fees is to support a new fee formula that HUD is seeking to implement for calendar year 2017, based on the findings and recommendations of the congressionally supported Housing Choice Voucher (HCV) Administrative Fee Study. The study measured the actual costs of administering the voucher program at 60 high-performing and efficient PHAs; identified the main cost drivers that accounted for the variation in administrative costs among those PHAs; and recommended a new formula based on those findings.

The funding request will support the new fee formula, ensuring that all PHAs receive the necessary funding to carry out all of their administrative responsibilities under the program. Clearly meeting certain leasing milestones is an important measure of the success of the voucher program, and PHAs have made progress in increasing leasing. There are, however, PHAs that have the Housing Assistance Payment (HAP) funding to serve additional low-income households off their waiting lists, yet they lack sufficient fees and capacity to support the substantial administrative work and cost that is required to maximize leasing. The HCV Administrative Fee Study found that many PHAs reduced the number of staff who support eligibility determinations and lease-up as a result of inadequate administrative fee funding.

PHAs' responsibilities, however, extend far beyond simply leasing additional families. For example, administrative responsibilities include managing waiting lists, conducting physical unit inspections, determining rent reasonableness, determining and verifying family income, and properly calculating the amount of rental subsidy. The increase in funding for administrative fees will help ensure that PHAs can sustain and build upon the recent improvements in leasing while also making significant progress toward the program's goals of serving families experiencing homelessness and other vulnerable families, and increasing neighborhood choice and housing opportunities for all.

Mr. Diaz-Balart #4

Administrative Fees

You are developing, but have not yet implemented, your new administrative fee structure.

Question: Wouldn't it make sense to hold the line on spending for this account until you have finalized the new administrative fee formula?

Answer: HUD has developed a proposed rule for the new administrative fee formula. The proposed rule is based on the study's findings as well as recommendations from stakeholders received in response to a June 2015 notice that solicited comment on the study. As of March 17, 2016 the proposed rule is under OMB review and is expected to be published in early summer 2016.

HUD understands Congress' interest in the details of the proposed administrative fee formula and its impact on PHAs. HUD would be happy to provide a detailed briefing on the proposed rule once it is issued.

As discussed under MDB1, the request for $2.1 billion in administrative fees is to fully fund HCV administrative fees under the new formula that HUD is seeking to implement for calendar year 2017. Failing to provide adequate administrative fees increases the risk that PHAs are unable to fulfill their core administrative responsibilities, and undermines our efforts to achieve key program goals such as maximizing the number of families assisted, serving homeless veterans and other vulnerable populations, and expanding housing opportunities. Given these risks, HUD believes it is appropriate to request the estimated funding needed to fully fund the new and vastly improved formula as part of the 2017 Budget Request. Otherwise, HUD would either have to delay implementation for another year because of insufficient appropriations that would severely prorate the new administrative fees, which would be counterproductive to the goals of the administrative fee study.

Mr. Diaz-Balart #5

Administrative Fees

Question: What are some efficiencies PHAs could implement so that they can keep their overhead expenses down?

Answer: HUD published the Final Streamlining Rule on March 8, 2016 that applies to the Housing Choice Voucher (HCV), public housing, multifamily housing, and Community Planning and Development (CPD) programs. The final rule is the product of a collaborative effort across several HUD rental assistance programs, to identify program requirements that create unnecessary burden on agencies responsible for administering HUD programs.

Provisions included in this final rule streamline the complex areas of:

- Income and Rent Determinations;
- Utility payments and schedules;
- Community service requirements; and
- Unit inspections.

Most of these provisions are optional, allowing PHAs to best assess which streamlining activities will work for their programs.

HUD's fiscal year 2017 Budget submission proposes additional PHA flexibilities and program efficiencies. Specifically, proposals would allow PHAs flexibility to use their operating funds for capital activities, and vice versa; create a utilities conservation pilot to encourage PHAs to undertake energy and water conservation measures and reduce Federal costs; permit PHAs to establish a capital reserve account to accumulate funds for large-scale capital expenditures; and simplify the calculation of the 20 percent project-based voucher cap by basing the maximum on authorized units rather than funding level, which is simpler and more transparent.

HUD is also responding to the fiscal year 2016 Appropriations Act Conference Report directive to establish a working group to review the Department's current processes for designing, proposing, and implementing regulations that have impacts across multiple program areas and offices. HUD takes this directive very seriously and are working to address this issue broadly, and specifically as it relates to cross-cutting regulatory requirements that affect PHAs, like Section 3 and Affirmatively Furthering Fair Housing.

Finally, HUD issued specific guidance on this topic in 2012 (PIH Notice 2012-15; http://portal.hud.gov/huddoc/pih2012-15.pdf).

Mr. Diaz-Balart #6

New Administrative Fee on Mortgage Bankers

The Administration is requesting to charge a new administrative fee on mortgage lenders that make FHA guaranteed loans. Although the fee would be new, the proposal is not. For the past two years, the industry has violently objected to this fee. However, this year's language is a little different than the prior year's language.

Question: We understand that the industry still has some concerns with the language. Did you coordinate with, or reach out to the industry this year regarding the fee, and do you believe you have addressed their concerns?

Answer: The need for modernization is a subject that is routinely discussed with FHA's key stakeholders, and HUD revised the fee language in the fiscal year 2017 Budget to incorporate comments and concerns expressed by various parties about the previous Administrative Fee language. This year, the language clarifies that the fee will be applied after solicitation of public comment, on a prospective basis to lender volumes from the previous year, and imposes a sunset on the provision.

This new language responds to key industry concerns and should result in a fee that helps modernize the FHA in a way that benefits both our industry partners and consumers.

Mr. Diaz-Balart #7

New Administrative Fee on Mortgage Bankers

Question: Please clarify if this is a prospective or retrospective fee: The language states that the fee will be assessed "on the original principal balance of mortgages endorsed or submitted for insurance endorsement by the mortgagee insured during the previous fiscal year."

Answer: The fee is prospective from the time of enactment of the fee provision, but would be assessed and collected once each year on the previous book of business. In no case would assessments go back beyond the date of legislative enactment. In practice, this means that no FHA approved lender affected by this fee would likely pay any fees until several months after the budget passed.

Mr. Diaz-Balart #8

New Administrative Fee on Mortgage Bankers

Question: What impact would this fee have on the industry, and ultimately, the borrower? Would it increase the cost of getting an FHA guaranteed loan?

Answer: The impact of the fee on both lenders and borrowers will be a net positive. While HUD cannot prevent lenders from passing the cost on to borrowers, we expect that overall the marginal cost would be offset by the benefits they received generally. For instance, without the modernization of critical systems that allow FHA to insure nearly a million loans each year, it is highly likely that HUD's systems will be off-line more frequently and for longer durations of time. FHA insurance system outages could result in loans not closing as scheduled, increased financing costs to potentially re-lock interest rates, and higher costs to procure new appraisals when the originals expire. In total, the FHA administrative fee will be beneficial to borrowers, lenders and other real estate professionals as it reduces the incidence of stalled home purchases, helps facilitate more efficient underwriting and loan closing, and keeps the flow of credit to responsible borrowers during countercyclical periods. It is worth noting that the fee, as proposed, is only in place for three years and would be implemented only after consideration of external comment of the fee design.

Mr. Diaz-Balart #9

Rental Assistance Demonstration (RAD)

The budget proposes authorizing language to eliminate the 185,000 unit cap on RAD 1, provide $50 million to support high impact RAD conversions, and include elderly SPRAC units in RAD 2 conversions. HUD states that RAD can be expanded at no additional cost to the taxpayer by simply shifting subsidies to the PBRA account.

Question: I understand that you have 185,000 applications for RAD 1, which is equal to the cap, Of the 185,000 applications, how many RAD 1 conversions have been completed?

Answer: Nearly 30,000 public housing units have converted under the Rental Assistance Demonstration program, leveraging over $2 billion to make crucial repairs and improvements. In a few short years, RAD has had a profound impact on the quality of housing, residents' lives, and community stabilization. RAD I's success to date has led to nearly 35,000 construction-related jobs, the removal of inefficient building systems and appliances and installation of energy efficient ones, and, in 17 percent of the transactions closed so far, the demolition of distressed public housing and its replacement with completely new and modern affordable housing. In addition to these positive outcomes, HUD is proud to report that RAD maintains and strengthens some of the most robust rights and protections for residents of any federal housing program and contains key program requirements to preserve the public interest in properties, such as affordability restrictions and warranties that ensure that converted units are maintained as high-quality affordable housing for the long term.

Mr. Diaz-Balart #10

Rental Assistance Demonstration (RAD)

Question: Based on the demonstration's entire history (since 2012), how many of these applications will fall out of the program?

Answer: Since the program's start, 189 applicants, representing 20,000 units of potential unit conversion, have voluntarily withdrawn or have had HUD revoke their awards. Many of these PHAs have found that rent levels secured under a RAD conversion are inadequate to effectively recapitalize the property and secure its financial viability for the long-term. For this reason, the Department has requested $50 million to provide an incremental subsidy that would increase the rent levels for properties with greater capital needs.

Also, please note that some of the PHAs that dropped out of the program later re-submitted applications after reconfiguring their financing strategies.

Mr. Diaz-Balart #11

Rental Assistance Demonstration (RAD)

Question: Will the unsuccessful applications make room for additional properties under the cap?

Answer: Yes, as awards are withdrawn or revoked, HUD makes replacement awards to applicants that are on our waiting list. However, it is very difficult to predict the pace at which current awards may also fall out of the program, though we generally believe that it will be a relatively small share of the outstanding awards. Many owners and communities that have established RAD as their best preservation strategy end up on the waiting list under the cap, and must choose between waiting for their turn or reinvesting their equity in other ventures. This uncertainty in timing is a driving force behind the departure of some of the applicants from the program – even applicants for whom RAD conversion, if readily available, would be the best option. Accordingly, the Department has asked for an elimination of the cap so that PHAs and eligible project owners can proceed with RAD on a timeline that makes the most sense for their local communities.

Mr. Diaz-Balart #12

Rental Assistance Demonstration (RAD)

Question: The last evaluation of RAD was done in 2014, two years after the pilot program began. Have you done any more public released evaluations on the program?

Answer: No other RAD evaluation document has been released to the public since the Progress Report in 2014. We expect to release an Interim Report by the summer of this year. The Interim Report is the culmination of Phase 1 of the evaluation. It focuses on: 1) program outputs to date, such as number of projects converted and total funding leveraged, 2) describing the types of properties being proposed for conversion under RAD, 3) preliminary analysis of factors that influence whether a RAD project will successfully complete closing, 4) insights collected from PHA representatives about their experiences with RAD, and 5) case studies that illustrate the mechanism by which PHAs leverage financing.

We look forward to sharing the Interim Report with the Committee as soon as it is available. In the meantime, we would direct the Committee and the public to our RAD newsletter and case studies on our website at http://portal.hud.gov/hudportal/HUD?src=/RAD/news.

Mr. Diaz-Balart #13

Rental Assistance Demonstration (RAD)

Question: There are 11,000 additional units waiting to enter the RAD 1 program. However, you are requesting that we eliminate the cap altogether. Why completely eliminate the cap on this program when so few deals have been closed, and before another evaluation is completed?

Answer: Each initial RAD award provides the PHA with the confidence to develop project plans, communicate with residents, and work with other state and local partners knowing that, as long as they comply with program requirements, they will be able to complete conversion. This process, especially for the conversions that have the greatest local impact, takes time to cultivate. Our pipeline of conversions that are approaching full maturity is strong, but we expect that this pipeline will mostly dry up unless the cap is lifted or eliminated, due to uncertainty from the owners' perspective. Eliminating the cap helps to ensure that there continues to be a healthy flow of new conversion proposals in our pipeline so that our external partners can realistically plan their transformative deals.

In addition, provisions of the RAD program which are directly tied to managing the cap impose burdens on the participating PHAs. For example, a PHA seeking nine percent Low-Income Housing Tax Credits (LIHTC) is only permitted one attempt to secure financing in order to ensure that the PHA is not holding RAD authority that another PHA could use. Competitive tax credit awards, outside of RAD, often require more than one application before they are successful, and applicants can build on the previous work with each subsequent attempt. The fact that the transaction loses its RAD authority if the application is unsuccessful – which would not be the case in the absence of the cap – means the PHA's resources used to prepare the transaction are wasted.

Mr. Diaz-Balart #14

Rental Assistance Demonstration (RAD)

Question: What makes this program ready to move from the demonstration phase to full program implementation?

Answer: We believe that the program is ready for full implementation for two main reasons. First, the Rental Assistance Demonstration (RAD) program has been overwhelmingly successful in the goals it has set out to achieve; namely, creating access to new financing sources, addressing the capital needs of public housing properties, and protecting and enhancing the rights of residents. Nearly 30,000 public housing units have converted under RAD, leveraging over $2 billion to make crucial repairs and improvements, with the vast majority of this funding coming from debt and equity sources largely inaccessible in the public housing context. In comparison, the Public Housing Capital Fund, on which PHAs primarily rely to modernize public housing properties, received fiscal year 2016 appropriations of $1.8 billion for the entire 1.1 million units in the public housing inventory. In other words, RAD has demonstrated a significant ability to address the capital backlog in the public housing program as a budget-neutral tool. Residents, meanwhile, have maintained some of the most robust rights and protections for residents of any federal housing program, including the right to return to properties once any rehabilitation or construction is completed and in many cases, the option to utilize a tenant-based voucher to move elsewhere after residing in the converted property for a period.

Second, HUD has developed an extensive infrastructure to support, implement, and oversee RAD. We have a dedicated cadre of staff within the Office of Recapitalization whose primary responsibility it is to ensure compliance with program requirements, support PHAs and owners toward successful conversion, and perform due diligence to warrant that converted properties will be viable for the long-term. We have also developed extensive cross-office coordination processes to make sure that all HUD requirements are met and monitored, including those related to relocation and environmental matters.

Question: Wouldn't this create oversight challenges and budget uncertainties?

Answer: If RAD were to be expanded, we would continue to maintain the rigorous standards and oversight framework we have already established. With that in mind, we do not foresee any new oversight challenges arising.

With respect to the budget uncertainties, the timing of conversions and budget submissions significantly reduce ambiguities. When a property converts, it is not reflected in the Project-Based Rental Assistance (PBRA) or Tenant-Based Rental Assistance (TBRA) appropriation accounts for two years, providing HUD enough time to adjust its budget estimates for PBRA and TBRA contract renewals to reflect the vast majority of units that actually have converted.

To elaborate, in the year a property converts, it continues to be funded through the Public Housing Operating and Capital Fund accounts. In the next calendar year, HUD transfers funds from the public housing accounts to the PBRA or TBRA accounts based on the actual conversions that occurred in the prior year. Only in the third year is the property funded directly from PBRA or TBRA renewals. Given these mechanics, HUD is able to incorporate fixed and known data into its estimation of budget needs for the PBRA and TBRA accounts in forthcoming budget requests.

Mr. Diaz-Balart #15

Rental Assistance Demonstration (RAD)

Question: Can you provide the committee with a 5, 10, and 15-year PBRA cost projection that assumes you receive the requested authority and that all projected RAD conversions are on the PBRA platform?

Answer: Our estimates in response to the question are provided in the attached table. If the cap were eliminated, we estimate that an additional 215,000 public housing units would be able to convert under RAD. These new awards would convert at a pace of 50,000 units per year for four years and then 15,000 units in the 5th year. While the conversion of these units would begin in fiscal year 2017, due to the mechanics of funding converted properties, they would not need to be supported by renewal appropriations in the receiving accounts until fiscal year 2019. The table identifies the projected increase in Project-Based Rental Assistance (PBRA) renewal funding that would be needed if all of these new awards converted to PBRA. We would like to note though, that to-date, both completed conversions and prospective conversions are effectively split between PBRA and Project-Based Voucher (PBV) accounts. Again, in the table, we also show the decreased need as quantified by reductions in eligibility specific to those units in the public housing program as properties convert, which would offset the growth in the Section 8 accounts on a unit basis.

	5 Year Projected Total FY 2017-FY2021	5 Year Projected Average Per Year FY 2017-FY2021	10 Year Projected Total FY 2017-FY2026	10 Year Projected Average Per Year FY 2017-FY2026	15 Year Projected Total FY 2017-FY2031	15 Year Projected Average Per Year FY 2017-FY2031
PBRA Renewal, Amendment, and PBCA Baseline Projection Based on Current Unit Levels (Assumes annual average OCAF 2.5%)	$ 56,836	$ 11,367	$ 119,379	$ 11,398	$ 206,082	$ 13,739
Additional RAD Component Renewal Costs Assumming All RAD Projects Convert to PBRA (Represents Corresponding Decrease in Public Housing Eligibility Need)	$ 938	$ 188	$ 1,536	$ 154	$ 1,754	$ 117
PBRA Total	$ 57,774	$ 11,555	$ 120,915	$ 11,552	$ 207,836	$ 13,856
Decrease in Public Housing Eligibility need	$ (938)	$ (188)	$ (1,536)	$ (154)	$ (1,754)	$ (117)
Net Total Budget	$ 56,836	$ 11,367	$ 119,379	$ 11,398	$ 206,082	$ 13,739
Units Converted via RAD and Supported Through PBRA Renewal Funding	150,000	30,000*	215,000	21,500	215,000	14,333

*Note: Over the next five years, 150,000 converting units would need to be supported through PBRA renewal funding. While this averages to 30,000 units per year, the actual distribution will be backloaded – zero new units would be added each year to the renewal baseline in FY 17 and FY 18 and 50,000 units would be added each year to the renewal baseline in FY 19, FY20 and FY21.

Mr. Diaz-Balart #16

OIG Financial Audit Disclaimer

The HUD Office of Inspector General had to express a disclaimer on HUD's 2014 and 2015 financial statements. The IG found billions of dollars improperly accounted for at CPD and tens of billions in audit problems at Ginnie-Mae.

Question: Mr. Secretary, it is terrifying that a financial institution as important as HUD cannot get a clean bill of health from its auditors for two years in a row. As simply as you can, please explain what is going on with HUD's financials?

Answer: HUD has faced significant financial management challenges, and addressing the material weaknesses in our financial statement is a top priority. Led by the Office of the Chief Financial Officer, HUD has made significant strides and is on a path to address the core issues underlying the audit findings. HUD reduced its audit findings from 11 in 2014 to 9 in 2015, and HUD is making continued progress in 2016. Working directly with program offices, and consulting with OMB and GAO, the majority of HUD's material weaknesses will be reduced by business process improvements in grant accrual, cash management, and modernization of its financial management systems.

As you know, HUD's aged financial systems had significant limitations that, combined with internal controls weaknesses, held HUD back from being able to provide timely, accurate financial reporting and was a major factor in the financial reporting challenges. At the start of this fiscal year, HUD migrated its general ledger and procurement processing to Treasury's shared service provider through the New Core project--the first transition of a cabinet level agency to a shared service for financial management. Converting to a shared service provides HUD the ability to build the type of real-time reporting that enables proactive management and strong fiscal stewardship. Treasury provides system infrastructure, operations and maintenance, and security upgrades--included in the shared services cost, and spread over time. The shared service allows HUD to focus on what it does best--delivering on its mission.

Also, HUD is revamping its audit coordination and remediation process to more quickly identify, engage, and resolve issues in a timely fashion. HUD engaged the OIG much earlier than usual for the 2016 audit and has improved communications between the offices.

- HUD has enhanced PHA data capabilities, to enable HUD to move to GAAP accounting of PHA Assets and Liabilities, and is continuing to work with grantees to allow validation of grant accruals, and properly account for advance payments.
- Within CPD, HUD is also working towards GAAP compliance, requesting data from grantees to allow for better accrual validation.
- On FIFO, HUD has made necessary changes to its financial system reporting, and expect that HUD will be able to fully implement internal control requirements to move from FIFO to grant-specific accounting in the first half of 2017. While there is still work to do, HUD is making progress and continues to work closely with OIG, GAO, and OMB.

- Ginnie Mae has also made significant progress on each of the material weaknesses identified by the OIG. Ginnie Mae has been overhauling legacy processes, and has filled three key leadership positions—including hiring a CFO, Controller, and a new Accounting Policy and Financial Reporting Advisor. Ginnie Mae continues to invest in accounting for non-pooled loans and properties at the loan level. As with FIFO, this will take time to resolve, but GNMA is making progress.

Mr. Diaz-Balart #17

OIG Financial Audit Disclaimer

Question: HUD has been operating for several months without a permanent CFO. When can we expect you to fill this critical position with someone qualified to address these big problems?

Answer: As you know, we lost a great man and colleague with the sudden passing of our CFO Brad Huther last summer. While his tenure was tragically cut short, he accomplished quite a bit-- making strides in increasing the financial strength and transparency of the Department, and playing a key role in HUD's transition to a modern financial system with our move to Treasury through the New Core project.

HUD is hiring the right leaders to help build a stronger HUD, but recognizes that the CFO position requires Senate confirmation. It took roughly a year for Mr. Huther's confirmation. HUD is working to attract and develop the best career staff at all levels, to institutionalize excellence in financial stewardship and management.

Preamble QFR Response: FIFO v. Commitments

Based upon questions posed in the hearing and these Question for the Record, there appears to be some confusion of two issues: the first-in-first-out accounting disbursement method known as FIFO previously used for HUD's formula grant programs, and the cumulative method that HUD has used for determining State or local HOME Program grantees compliance with the statutory 24-month deadline for committing HOME funds.

FIFO: HUD historically used a first-in, first-out (FIFO) method of disbursing grant funds for its formula grant programs (e.g., Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), Emergency Shelter Grants (ESG), and Housing Opportunity for Persons with AIDS (HOPWA).) The FIFO method ensured the oldest available grant funds were used for disbursements in an effort to most efficiently use formula-based block grant funds. HUD's data system, the Integrated Disbursement and Information system (IDIS) used the FIFO method since its implementation in 1995.

HOME 24-Month Commitment Requirement: Section 218g of the Cranston-Gonzalez National Affordable Housing Act of 1990 (HOME Statute) requires compliance with the requirement that a HOME participating jurisdiction place funds under binding commitment within 24 months. Because IDIS operated FIFO for commitments and grantees could not choose the specific funds they wished to commit to a project, HUD implemented a cumulative method of measuring compliance with the commitment deadline. This method has been described in the HOME Program regulations since 1997. Specifically, the HOME regulation at 24 C.F.R. § 92.500(d)(2) describes the manner in which HUD determines if HOME grantee in compliance with the 24- month commitment requirement.

Mr. Diaz-Balart #18

FIFO Accounting Issue

HUD's improper use of First-In-First-Out, or "FIFO" accounting, is one of the biggest reasons for the IG audit disclaimer on HUD's financials. It appears HUD is violating statutory requirements under the HOME program because of this faulty accounting. Even worse, the IG believes these accounting mistakes meet the definition of an Anti-Deficiency Act violation, which means HUD may be spending money it doesn't have.

Question: Have you investigated the IG's findings to determine whether HUD's breach of the HOME statute is, in fact, an Anti-Deficiency Act violation?

Answer: To comply with the IG recommendation, HUD has opened an ADA investigation to determine if HUD has violated the ADA and we plan to finish our work this year.

Specific CPD formula grant programs used the first in, first out (FIFO) accounting disbursement method for fiscal year 2014 and prior grants, and a cumulative method was used to determine whether HOME grantees met their 24-month commitment requirement. After considerable work with OIG, OMB, and GAO, HUD decided to change its accounting to be grant specific instead of

FIFO, and its method for assessing grantee compliance with the commitment requirement from cumulative to fiscal year specific. Because FIFO for disbursements and commitments were embedded in the grant administration system (IDIS), it affected the events that led to the recording of financial transactions and took time to change. The grant administration and financial systems have been modified to capture the level of detail to record the financial transactions and allow such grant-specific and fiscal-year specific reporting for disbursements and commitments for grants awarded for fiscal year 2015 and thereafter.

The cumulative methodology for determining compliance with the HOME 24-month commitment requirement has been and is described in the HOME regulation at 24 CFR § 92.500(d)(2). HUD, as mentioned above, has made the changes to IDIS, and is currently undertaking rulemaking that changes the method used to determine compliance with the 24-month HOME commitment requirement from a cumulative method to a grant specific method for FY 2015 and subsequent fiscal year grants. To date, HUD, using the cumulative method, has deobligated more than $111 million of HOME funds from grantees that did not meet the HOME commitment requirement.

It is important to note, however, that for FY 2014 and prior year grants, the grantees used the funds received to carry out their planned activities consistent with the grant requirements. The grants resulted in thousands of housing units being built and occupied; households being assisted with housing, shelter, and services; and communities being improved because grantees followed the program regulations in place at the time.

The OIG recommendation would require past awards to be recaptured—effectively applying the accounting and other changes retrospectively. HUD has been and continues to consult with OMB and GAO about what has been a prospective application of the grant administration and financial systems changes that took effect with respect to FY 2015 funding and will continue with future fiscal year funding.

Mr. Diaz-Balart #19

FIFO Accounting Issue

Question: The fact that the IG thinks you have an A.D.A. problem is a big deal. Have you received an opinion from OMB or GAO on whether FIFO accounting under HOME constitutes an A.D.A. violation?

Answer: As we have worked with OIG on both the FIFO accounting and HOME commitment issues, we have been consulting with OMB and GAO. Similarly, as we work on this ADA investigation to determine whether HUD has violated the ADA, we have and will continue to work with both OMB and GAO.

Mr. Diaz-Balart #20

FIFO Accounting Issue

Question: HUD has sent Congress repeated requests in the budget to strike the part of the HOME program statute that it is apparently breaking. Why does HUD keep requesting to strike a common sense requirement for grantees to commit funds within two years of award? Is it just easier to have us change the law than to fix HUD's accounting problems?

Answer: The President's fiscal year 2017 Budget request is the first time HUD has requested the Congress to make a statutory change to the two year commitment requirement. This request is unrelated to the change from FIFO (first in first out), or the GAO opinion on the change in measuring HOME commitments from the cumulative method to grant-specific method. HUD has already completed the Integrated Disbursement Information System (IDIS) programming to switch from the cumulative method to the grant-specific method and plan to publish a regulatory amendment later this year proposing to eliminate the cumulative method beginning with FY 2015 HOME grants. The purpose of eliminating the two year commitment level is actually just one additional proposed change to the many changes HUD has already made to improve its suite of performance measures.

Section 218(g) of National Affordable Housing Act requires that each HOME grantee place its HOME funds under legally binding agreement for a specific project or activity within 24 months of HUD's obligation of the grant. This requirement was established as a performance standard to ensure that HOME funds were used timely for affordable housing production. The statute requires HUD to recapture any funds not committed by the deadline and reallocate by formula (for regular HOME funds) or by national competition (for Community Housing Development or CHDO funds).

HUD is proposing elimination of the deadline because the imposition of project-specific deadlines by HUD's fiscal years 2012 and 2013 Appropriations laws and the 2013 HOME final rule are superior performance standards for grantees. For example, more focus is placed on performing due diligence up front and ensuring that all HOME grantees complete project construction within 4 years of committing funds. In addition, HUD regulations require grantees to achieve initial occupancy of all HOME units within 18 months, and transfer homebuyer units to income-eligible homebuyers within 9 months of construction completion. HUD has developed reports that track compliance of every HOME project with these deadlines.

More specifically, the Appropriations laws and the HOME final rule have established more stringent due diligence requirements for grantees before HOME funds can be committed to a project. Before a HOME grantee can commit HOME funds to a project, the grantee must: 1) underwrite the project; 2) ensure that all financing necessary to complete the project has been firmly secured; 3) assess both the development capacity and the fiscal capacity of the project owner/developer; and 4) assess neighborhood market demand for the units. As a result of these new requirements, there has been a substantial increase in the amount of HOME funds that HUD has been required to deobligate due to grantees' failure to commit funds to projects by the deadlines. The amount of HOME funds deobligated for failure to commit by the statutory deadline has increased by 312 percent - from $3,891,323 in fiscal year 2011 to $16,031,044 in fiscal year 2015. During this same period, the number of grantees with funds deobligated for failure to meet the deadline increased from 13 to 37. While many of the grantees who lost funds to the deadline are grantees with lower capacity, some very successful, high capacity grantees with viable projects have lost HOME funds because they were not able to complete all required due diligence by the deadline.

The chart below shows the HOME grantees in the State of Florida from which HUD has recaptured HOME funds for failure to meet the commitment deadline. To date, HUD has deobligated nearly $7 million of HOME funds from Florida HOME grantees. Note that the number and dollar amount of these deobligations has been increasing significantly, beginning with fiscal year 2010 grants (which had 24 month deadlines during 2012) and fiscal year 2013 grants (which had deadlines in 2015).

Participating jurisdiction	**State**	**Amount Reduced**	**Source (FY) HOME Grant for which Commitment Deadline was Missed**
TAMPA	FL	$175,873.00	2004
HILLSBOROUGH COUNTY	FL	$1,916,057.00	2005
HILLSBOROUGH COUNTY	FL	$113,327.00	2005
BREVARD COUNTY CONSORTIUM	FL	$215,137.00	2006
MIAMI BEACH	FL	$1,488.00	2006
POLK COUNTY	FL	$400,776.00	2006
COLLIER COUNTY	FL	$34,196.00	2009
ORLANDO	FL	$31,983.00	2009
ORLANDO	FL	$407,006.00	2009
WEST PALM BEACH	FL	$361,580.25	2010
DAYTONA BEACH	FL	$41,071.00	2010
MIAMI BEACH	FL	$368,352.00	2010
MIAMI BEACH	FL	$208,453.00	2010
WEST PALM BEACH	FL	$289,158.00	2010
JACKSONVILLE-DUVAL COUNTY	FL	$163,346.00	2011

MARION COUNTY CONSORTIUM	FL	$283,400.00	2011
HOLLYWOOD	FL	$156,309.00	2011
WEST PALM BEACH	FL	$59,203.00	2011
HIALEAH	FL	$751,773.00	2011
DAYTONA BEACH	FL	$42,816.00	2011
HIALEAH	FL	$33,986.00	2012
WEST PALM BEACH	FL	$210,475.50	2012
WEST PALM BEACH	FL	$89,313.21	2012
TAMPA	FL	$5,814.00	2012
DAYTONA BEACH	FL	$26,756.00	2012
PALM BEACH COUNTY	FL	$283,227.00	2012
HIGHLANDS COUNTY CONSORTIUM	FL	$5,841.60	2013
TAMPA	FL	$278,484.00	2013
TOTAL		**$6,955,201.56**	

HUD believes that eliminating the 24-month commitment deadline is appropriate because it is causing communities to lose increasing amounts of HOME funding for important affordable housing projects. The new project-specific deadlines and the expiration of grant funds under the National Defense Authorization Act are sufficient to ensure timely grantee performance. Because grantees are having difficulty completing the required due diligence on HOME projects involving development activities, HUD is concerned that communities will cease funding development activities with HOME – instead choosing to use HOME funds for only down payment assistance, tenant-based rental assistance, or owner-occupied housing rehabilitation which are not subject to the same due diligence standards. HUD feels strongly that each State and local HOME grantee should use their HOME funds for the affordable housing needs and priorities that it identifies, rather than having its choices driven by the need to meet a statutory deadline. Within a reasonable time frame, HUD believes that it is more important that grantees carefully evaluate the projects that they undertake with HOME funds to ensure their feasibility than to commit funds to projects or activities within an arbitrary two year deadline.

Mr. Diaz-Balart #21

FIFO Accounting Issue

Question: Mr. Secretary, this FIFO issue is a major problem. It makes it impossible for you to deliver auditable financials and, even worse, it is causing HUD to violate federal law. Can I have a firm commitment from you that this accounting problem will be corrected in time for your 2016 audit?

Answer: HUD has implemented the necessary policy and systems changes to address the FIFO concerns with respect to FY 2015 and subsequent fiscal year grants.

Specific CPD formula grant programs used the first in, first out (FIFO) method for fiscal year 2014 and prior grants. Because FIFO was embedded throughout the grant administration system (IDIS), it affected the events that led to the recording of financial transactions and took time to change. The grant administration and financial systems have been modified to capture the level of detail to record the financial transactions and allow grant-specific reporting for grants awarded in fiscal year 2015 and thereafter.

It is important to note, however, that for FY 2014 and prior year grants, the grantees used the funds received to carry out their planned activities consistent with the grant requirements. The grants resulted in thousands of housing units being built and occupied; households being assisted with housing, shelter, and services; and communities being improved because grantees followed the program regulations in place at the time.

The OIG recommendation would require past awards to be recaptured—effectively applying the accounting and other changes retrospectively. HUD has been and continues to consult with OMB and GAO about what has been a prospective application of the grant administration and financial systems changes that began with FY 2015 funding and will continue with future fiscal year funding.

Mr. Diaz-Balart #22

Legislative Proposals

Once again, HUD's budget request includes several new authorizing changes accompanied by opaque references to more authorizing proposals to come. While we all appreciate the need to reform HUD's programs, piecemeal administrative provisions tucked into appropriations bills is not the right way to go about it. This is the third straight year you have promised a reform proposal but we have yet to see anything real.

Question: Can you outline your plans to engage the authorizing committees with a sincere effort to reform HUD's programs?

Answer: The Department of Housing and Urban Development (HUD) engages the House Committee on Financial Services (HFSC) and Senate Committee on Banking, Housing and Urban Development (SBC) about authorizing proposals included in the Budget. For both the 2016 and 2017 Budgets, upon release, HUD provided staff briefings for each Authorizing Committee that were open to all House and Senate staff, where senior HUD officials explained the proposals contained in the Administration's Budget request for the Department. These briefings have been supplemented by briefings provided for both respective Committee staffs, similar to the briefings provided to the House and Senate Transportation, Housing, and Urban Development Subcommittee staff. In addition, HUD Secretary Julián Castro testified in June 2015 before the HFSC at a hearing entitled "The Future of Housing in America: Oversight of the Department of Housing and Urban Development," which addressed both legislative requests and reform efforts. Also, a number of bi-partisan legislative proposals have been included in a bill sponsored by FSC Housing and Insurance Chairman Blaine Luetkemeyer and Ranking Member Emanuel Cleaver, H.R. 3700, the "Housing Opportunity Through Modernization Act," which passed the House on February 2, 2016, by a vote of 427 to 0. Lastly, to the extent any member requests legislative drafting assistance, HUD is at the ready to provide such service and expertise.

Mr. Diaz-Balart #23

Legislative Proposals

Question: Can you make any firm commitments on when you expect to submit specific proposals to the authorizers?

Answer: HUD does not anticipate submitting any additional proposed legislative language than what is already presented in the fiscal year 2017 Budget request. Nonetheless, to the extent authorizers, or any Member of Congress, request technical drafting assistance for their amendments and/or bill(s) implementing any of these proposals, HUD is ready to provide assistance.

Mr. Diaz-Balart #24

Legislative Proposals

Question: Your budget makes an $11 billion commitment to end Family Homelessness but provides no legislative details. Do you plan to send a legislative proposal defining this program?

Answer: To the extent authorizers, or any Member of Congress, request technical drafting assistance for their amendment and/or bill(s) implementing this proposal, HUD is ready to provide assistance. We would like to work with staff to begin that process.

Mr. Diaz-Balart #25

Legislative Proposals

Question: Why are you proposing to shift support for homeless families to the mandatory side of the budget? Does that mean discretionary funds would no longer support them? Doesn't dividing homeless assistance for one group or another across budget categories just make it harder to administer?

Answer: For HUD, and the entire nation, ending homelessness *is mandatory*. But the fact is, we can't end homelessness among families without a significant infusion of resources, targeted to our most vulnerable families with children.

- This mandatory budget proposal reflects our long-term commitment to effectively end homelessness for the tens of thousands of families that experience it year after year.
- The strategy to make progress towards ending homelessness includes requests for housing resources on both the mandatory **and** discretionary sides of HUD's budget, and includes requests in both HUD's Homeless Assistance Grants programs and in the Housing Choice Voucher Program.
- HUD is making a down payment on progress in ending homelessness. The request for resources seeks to end chronic homelessness; make progress on youth homelessness (HAG); and make progress on family homelessness (HCV and HAG). It also makes the case for the long term investment needed to meet the goal to end family homelessness by 2020.

If we're serious about ending family homelessness, then we have to make a serious investment. We believe that, with $11 billion in funding for Housing Choice Vouchers and rapid rehousing, we can end family homelessness by 2020 and sustain that progress moving forward.

- The $11 billion number was the product of modeling and projections, based on evidence like the Family Options Study and experience from communities across the country, and is not intended as an entitlement program, but rather, as an infusion of funding to address this serious issue.

Complementing this proposal, the President's Budget also provides targeted discretionary investments to address homelessness, including:

- 10,000 new housing vouchers for families with children experiencing homelessness,
- 25,500 new units of permanent supportive housing to end chronic homelessness,
- 8,000 new units of rapid rehousing for families with children experiencing homelessness and
- $25 million to test innovative projects for youth experiencing homelessness.

Mr. Diaz-Balart #26

Moving to Work

The FY 2016 bill gave HUD authority to establish 100 more "Moving to Work" agencies. Our foremost goal, though, is to see what works well, and then expand those ideas across HUD's programs. However, GAO and HUD's IG have noted repeatedly that HUD does not have performance measures in place to gauge the effectiveness of MTW agencies. And worse, we have seen some agencies use MTW flexibilities to avoid accountability or use funds for purposes other than serving people in need.

Question: Mr. Secretary, what is your time-frame for designating these 100 new MTWs?

Answer: The fiscal year 2016 Act requires HUD to expand the MTW demonstration to 100 additional PHAs over a seven-year period; HUD will meet this requirement. The Act requires HUD to establish a research advisory group with representatives from MTW PHAs, HUD, and subject matter experts to advise the Secretary on specific policy proposals and methods of research and evaluation for each cohort of PHAs that are designated as MTW through this expansion. HUD is in the process of establishing this advisory committee, as required under the Federal Advisory Committee Act. Our goals are to post the advisory committee's Charter in the Federal Register in April, file the Charter with Congress after the comment period, and begin convening the advisory committee this summer. Informed by the advisory committee's recommendations, HUD will determine the policies to be studied and the methods of research. The Department anticipates that it will publish the Notice to solicit applications for the first cohort of MTW PHAs this fall, allow applicants 90 days to apply, and thereafter select the first cohort by next summer. It should be noted that this is a very aggressive schedule and there are many factors that may impact this timing.

Mr. Diaz-Balart #27

Moving to Work

Question: What will be the criteria for selecting participants?

Answer: The fiscal year 2016 Act identifies several criteria that HUD must consider when selecting PHAs to participate in the expanded MTW demonstration, including:

- high-performer status under the Public Housing Assessment System (PHAS) or the Section Eight Management Assessment Program (SEMAP);
- size of the PHA (50 PHAs shall have less than 1,000 aggregate public housing and voucher units; 47 PHAs shall have up to 6,000 aggregate units, and no more than 3 PHAs shall have up to 27,000 aggregate units);
- participation in the Rental Assistance Demonstration (five PHAs shall have portfolio awards); and
- geographic diversity of all MTW PHAs.

Further criteria specific to the policy area that will be tested and the PHA's capacity related to data and evaluation will be considered when selecting additional MTW PHAs. HUD will identify additional criteria to ensure that selected PHAs are able to appropriately implement the MTW flexibilities and to enable HUD to learn from their participation in MTW so that lessons are learned and promising practices can be applied to other PHAs through statutory and/or regulatory changes.

Mr. Diaz-Balart #28

Moving to Work

Question: Do you anticipate that this new MTW expansion will have a cost, in terms of HUD staff time to review, select, and monitor these new MTW agencies?

Answer: Yes, HUD anticipates additional resources will be needed for staffing, technical assistance, and evaluation with the expanded scope. Resources will be needed for the following purposes: to continue to oversee and monitor the existing 39 MTW PHAs; develop the policy and framework for the expanded MTW demonstration; staff the advisory committee; administer the competition and select new MTW PHAs across several cohorts; monitor and oversee the new MTW PHAs; and to rigorously evaluate the MTW initiatives to ensure that lessons are learned and promising practices are applied to all PHAs.

Mr. Diaz-Balart #29

Moving to Work

Question: In light of the expansion of MTW, can you describe how you intend to measure performance so that best practices can be documented and repeated elsewhere?

Answer: The Department will assess performance of new MTW agencies through monitoring the five statutory requirements of the MTW Program. These are that:

1. At least 75% of families assisted are very low-income;
2. A reasonable rent policy is established that is designed to encourage employment and self-sufficiency;
3. Substantially the same total number of eligible low-income families will continue to be served as if the MTW agency had not participated in the MTW Program;
4. A comparable mix of families by family size will continue to be served as if the MTW agency had not participated in the MTW Program;
5. Housing assisted under the MTW Program meets housing quality standards established by the Secretary.

Procedures are currently in place for HUD to monitor the existing MTW agencies' compliance with these five statutory requirements utilizing data from available HUD systems. These procedures would be applied to new MTW agencies as well. The Department is currently considering more effective methods to strengthen the requirement that MTW agencies continue to serve substantially the same number of eligible low-income families had they not participated in the MTW Program. Any resulting methodology would apply to both new and current MTW agencies.

The Department will require that new MTW agencies continue to submit financial, project and household data into established HUD systems. Information on the use of MTW flexibilities and interventions will also be collected. Further validation and verification of this data is performed as a part of the annually submitted A-133 audit, conducted by an independent third-party assessor in accordance with the MTW Demonstration's OMB A-133 Compliance Supplement. Current MTW agencies are also subject to these requirements.

HUD's Office of Field Operations (OFO) and Real Estate Assessment Center (REAC) will continue to assess risks related to physical property inspection, financial information/audits, and other local/regional issues for new MTW agencies, as is done for all public housing agencies (PHAs). HUD analyzes risks as a part of this process and then allocates oversight and technical assistance resources accordingly, both in the field and at headquarters. Current MTW agencies are already incorporated into this strategy.

Unique to the new 100 MTW PHAs, is the guidance of a research advisory committee. Informed by their recommendations, the Department will identify specific policy areas and methods of research and evaluation to more effectively assess the performance of specific MTW flexibilities. As prescribed in the 2016 Consolidated Appropriations Act, the MTW Expansion will add PHAs in cohorts and, for each cohort, will direct one specific policy change to be implemented by all PHAs in that cohort. This research strategy will enable a comprehensive analysis of MTW interventions and improve the delivery of federally assisted housing across the country in a way that was not possible in the existing MTW Program.

Mr. Diaz-Balart #30

Moving to Work

Question: Are there lessons you have learned from the mistakes made by existing MTWs that will help you design a better program moving forward?

Answer: HUD's vision for the MTW expansion is to learn from MTW interventions in order to improve the delivery of federally assisted housing and promote self-sufficiency for low-income families across the Nation. There are many lessons to be learned from the experiences with the existing 39 MTW PHAs, which will enable HUD to design a better program moving forward. Two significant lessons are highlighted below:

Funding Equity. Several of the existing MTW PHAs are not funded in accordance with statute and regulation, and instead have customized funding arrangements with HUD. This has led to the unintended consequence of several of the existing 39 MTW PHAs receiving more than they would if they did not participate in the MTW demonstration. While Congress addressed this by stating the most recent nine PHAs designated with MTW could not receive more funding than they otherwise would, this inequity of funding will continue for several of the existing MTW PHAs through 2028. HUD has learned from this experience, and, therefore, the funding of the PHAs that are designated through the expansion will be calculated in accordance with statute and regulation for the operating and capital funds, and the voucher funds will be calculated as close to statute and regulation as possible, while still allowing the MTW PHAs to use the single-fund budget authority permitted by the enabling MTW statute.

Program Monitoring and Evaluation. HUD's ability to monitor and evaluate the effectiveness of MTW agencies has been appropriately criticized. Much of the difficulty stems from the attempt to base monitoring and evaluation activities on historic data and information that is unreliable, or at times unavailable. Additionally, the lack of baseline data and local nature of the MTW demonstration makes cross-program analysis difficult. The existing 39 MTW agencies entered the demonstration with vast differences in performance, locality, program size, quality of housing stock and many other factors. Often, they conduct similar MTW activities, but for different reasons, implemented in various ways, and producing different results. HUD has taken a number of steps to resolve these issues, so while some issues are intrinsic to the local nature of the MTW demonstration, the issues around incomplete and incorrect reporting and low-performers have been largely corrected such that the GAO and HUD IG have approved these improvements and the audits are closed. As the MTW demonstration is expanded to 100 additional PHAs, HUD will direct each cohort of new MTW PHAs to implement one specific policy change, and HUD will evaluate the effectiveness of that policy change through rigorous research, which will ensure that the Department learns from MTW so that promising practices can be applied to all PHAs.

Mr. Diaz-Balart #31

Operating Fund used for Administrative Overhead

You are requesting $4.6 billion for the operating fund, which is intended to support the day to day operations of public housing for 3,100 Public Housing Authorities. Your budget request, however, states that "in addition to supporting operational needs, this request supports PHA administrative expenses."

Question: Does this suggest that you are using the operating fund to augment activities more properly funded through the administrative fees account?

Answer: The administrative fees account only provides funding for administration of the Housing Choice Voucher program. These funds may not be used by PHAs for the administration of public housing. The Operating Fund provides funding for the operation and maintenance of public housing properties, and for the administration of the public housing program. As such, the funds provided to PHAs through the Operating Fund are properly used by PHAs for such administrative costs.

Mr. Diaz-Balart #32

Operating Fund used for Administrative Overhead

Question: Can you tell us how much of the operating fund is used for administrative overhead, as opposed to directly supporting housing units?

Answer: It is important to note that PHAs pay for property expenses and indirect costs from other sources in addition to the Operating Fund. Specifically, all PHAs collect rents from tenants, and some PHAs generate revenue from onsite laundry or vending. As such, HUD believes that the proper analysis of revenue used to pay for indirect costs is based on the percentage of total revenue (not just Operating Funds) to determine the percentage of property funds spent on indirect costs. Further, as a point of clarification, indirect costs, including salaries, bookkeeping, and other costs, are costs that support housing units. PHAs could not manage properties without such functions and costs.

HUD requires PHAs to submit financial statements in accordance with the Generally Accepted Accounting Principles (GAAP). Accordingly, indirect and direct costs are not reported separately on the financial statements. However, for PHAs that use a Central Office Cost Center (COCC), HUD can identify the fees paid to the COCC and use those amounts to estimate the indirect costs allocable to the Public Housing program.

Prior to 2007, PHAs were not required to report to HUD regarding estimates or actual expenses related to indirect costs in the public housing program. Beginning in 2007, through the transition to asset management, HUD required PHAs to establish a COCC, which is used to capture PHA-wide indirect costs. HUD permits Public Housing projects to pay fees, to the COCC. However, once paid to the COCC, those fees can be used to pay other costs in addition to indirect costs allocable to the Public Housing program. For this reason, HUD cannot determine the precise amount of indirect costs that are allocable to the Public Housing program and can only provide an estimate.

In FY 2015, PHAs that use a COCC reported approximately $646 million of fee paid to the COCC. This represents approximately 12 percent of the total operating revenue available to those PHAs to support public housing units.

It is important to note that because nearly 70 percent of all PHAs are exempt from the requirements to conform to asset management (due, in part, to an Appropriations provision), HUD does not have data to estimate indirect costs for these PHAs.

Mr. Diaz-Balart #33

Affirmatively Furthering Fair Housing – Cost to Administer

The budget justification continues that the operating account will now support administrative operations "associated with implementing new Affirmatively Further Fair Housing regulations."

Question: What is the justification for using operating funds, rather than administrative fees, for this new fair housing regulation?

Answer: Costs related to completing the assessment of fair housing required by HUD's Affirmatively Furthering Fair Housing (AFFH) rule are considered costs of management of the public housing program and the Housing Choice Voucher (HCV) program. As such, PHAs are authorized to use public housing Operating Funds and HCV Administrative Fees to pay for costs related to the assessment. This is a continuation of the current HUD policy that allows PHAs to complete their Analysis of Impediments to Fair Housing using operating funds or administrative fees. HUD allocates operating funds based on formulas that account for cost drivers related to the program which do not specifically include the assessment of fair housing, rather they are focused on core program costs (see HUD's FY 2017 Congressional Justifications for more information). HUD's FY 2017 budget request for the Operating Fund and the Housing Choice Voucher administrative fees did not factor in any additional or specific costs relating to AFFH requirements.

Mr. Diaz-Balart #34

Affirmatively Furthering Fair Housing – Cost to Administer

Question: Can you give us an estimate of the time and staff commitment you are expecting PHAs to expend to comply with these new regulations?

Answer: The time that public housing agencies (PHAs) are expected to expend on complying with the Affirmatively Further Fair Housing (AFFH) rule is dependent on the manner in which the PHA chooses to complete an Assessment of Fair Housing (AFH). If the PHA collaborates with another program participant(s) to complete a joint or regional AFH, the time is estimated at an average of 120 hours once every five years. If the PHA chooses to complete an AFH by itself, the time is estimated at an average of 240 hours once every five years. This estimate includes time for staff to review the instructions, search existing data sources, gather and maintain the data needed, and complete and review the collection of information. Further, when calculating the estimate, it is presumed that two-thirds of PHAs will seek to work collaboratively with their respective local government or State program participant to submit a joint AFH, while the remaining one-third of PHAs will submit individual AFHs.

HUD strongly encourages PHAs to collaborate, as a collaborative AFH may reduce burden, promote information and resource sharing, and provide a more comprehensive fair housing analysis.

Mr. Diaz-Balart #35

Affirmatively Furthering Fair Housing – Cost to Administer

Question: Did you do an analysis of the administrative burden of this new regulation?

Answer: As detailed in the Regulatory Impact Analysis (found at *www.regulations.gov* under the docket number 5173–F–03– RIA), HUD does not expect a large aggregate change in compliance costs for program participants as a result of the AFFH rule. HUD believes that the AFFH rule, through its improvements to the fair housing planning process, has the potential for substantial benefit not only for program participants but also for the communities they serve and the United States as a whole. The improvements to fair housing planning made by the AFFH rule should yield increased compliance with fair housing and civil rights laws and fewer instances of litigation pertaining to the failure to affirmatively further fair housing. There will be some costs associated with implementation of the AFFH rule and estimates are discussed below.

As part of the Paperwork Reduction Act process for the AFFH Rule, HUD prepared an annual cost estimate. The rule's impacts on program participants are associated with executing the envisioned fair housing planning process. The new AFFH regulations are designed and intended to improve the process for carrying out a statutory mandate to affirmatively further fair housing. The AFFH rule requires program participants to complete and submit of an Assessment of Fair Housing (AFH) to HUD. The primary compliance costs are for the HUD program participants to prepare a more rigorous fair housing plan, in the form of an AFH. The cost will depend upon on numerous factors including the size of the program participant, the severity of fair housing issues in the program participant's jurisdiction and region, as well as how different the new fair housing planning process is from current practices. The new AFH will involve additional document preparation. However, costs associated with such preparation are not significantly increased because States, local governments, and PHAs are already required to address analyses comparable to those required by the AFH, such as disproportionate housing needs, and undertake activities to offer fair housing choice, and maintain records of the activities and their impact.

The net change in burden for specific local entities will depend on the extent to which they have been complying with the planning process already in place. The local entities that have been diligent in completing rigorous Assessments of Impediments to Fair Housing (AIs) may experience a net decrease in administrative burden as a result of the revised process. Many program participants spend considerable time and funds trying in good faith to comply with the existing AI requirements, given the absence of specificity, and for those program participants, the new AFH process, given its specificity should be easier and less costly. Similarly, the burden of the rule will vary by data aptitude and resources of the program participant. Entities that have invested in data systems and are able to access more easily relevant local data would in all likelihood have a reduced burden. A program participant that already collects data and employs analysts who study local trends will be able to respond with little additional effort compared to a program participant that does not have this capacity.

Please note that the new AFH involves a separate community participation process, and HUD recognizes that this new participation process entails additional costs. There will also be costs associated with the strategies and actions program participants take to address the goals of the AFH. However, the rule covers program participants subject to a diversity of local conditions and economic and social contexts. Therefore, this analysis is unable to quantify the outcomes of the process to identify (1) barriers to fair housing, (2) program participants' decisions on which barriers to address, (3) the types of policies to address those barriers, and (4) those policies' effects on protected classes. The precise outcomes of the AFFH planning process are uncertain, but the rule will enable each jurisdiction to plan meaningfully.

Though HUD estimates new costs exceed new cost savings, the final rule makes several key changes that will reduce costs and burden while replacing the AI process with the new AFH process. First, the final rule advises that HUD will provide nationally uniform data and an Assessment Tool to program participants. Different versions of the Assessment Tools (or Template), the document by which a program participant will document its assessment of fair housing issues in its geographic area, that are tailored to the roles and responsibilities of the various program participants covered by this rule. Second, HUD recognizes that all program participants do not have the same recourses and capacity and HUD provides additional time for small entities, qualified PHAs (as defined by statute) and jurisdictions that receive a Community Development Block Grant (CDBG) of $500,000 or less, to complete their first AFH. As such, HUD has provided a staggered submission deadline for program participants to submit their first AFH. Additionally, the final rule provides that a program participant that undertook a Regional AI in connection with a grant awarded under HUD's Fiscal Year 2010 or 2011 Sustainable Communities Competition is not required to undertake an AFH for the first AFH submission stage.

Please refer to pages 42349-42350 of the preamble to the AFFH rule for additional information related to costs.

Mr. Diaz-Balart #36

SHOP Program Minimum Wage

Since 1996, the SHOP program has supported charity organizations who employ the "self-help" model of making home-ownership affordable. As part of this model, families receiving subsidized homes are given the opportunity to contribute their own labor. In the past, SHOP hasn't placed a dollar value on the sweat equity because the families are receiving a subsidized home. The labor participation is just part of the process of giving these families the tools to be successful homeowners.

Question: Why did HUD choose to arbitrarily put a $10 per hour across the board value on sweat equity after decades of not doing so?

Answer: The fiscal year 2015 SHOP Notice of Funding Availability requires grantees to provide a minimum valuation of $1,000 per 100 hours of sweat equity ($500 for single person households contributing the minimum 50 required sweat equity hours). This was done because, over the years, HUD has seen a significant reduction in the valuation of homebuyer sweat equity. For example, in previous years Habitat for Humanity provided more than $12,000 for a homebuyer's sweat equity contribution. However, Habitat has significantly cut that valuation over the years. In 2014, the valuation provided by Habitat was a mere $750 for 100 hours of sweat equity.

The $10 per hour rate has been used by the HOME program for the past two decades as the single rate applicable for determining the value of any unskilled donated or voluntary labor. The $10 per hour rate is slightly lower than the Department of Labor (DOL) 2014 Occupational Employment and Wages median hourly wage of $11.19.

Mr. Diaz-Balart #37

SHOP Program Minimum Wage

Question: $10 per hour sounds an awful lot like the President's minimum wage proposal, but these families are already receiving a federally subsidized home in return for their efforts. Does it make sense to apply a minimum wage policy in this case?

Answer: The $10 per hour credit for sweat equity and volunteer labor is unrelated to any wage proposals. This rate is used to value matching contributions for unskilled volunteer labor in the HOME Program. The rate is lower than the estimated average of $23.07 per hour for volunteer skilled labor. The $10 per hour rate is also slightly lower than the Department of Labor (DOL) 2014 Occupational Employment and Wages median hourly wage of $11.19.

While SHOP units receive up to $15,000 per unit for land acquisition and infrastructure costs, HUD found that some SHOP units were being sold to low-income families at market value who had mortgages for 100% of the value of the home. In addition, the homebuyers were not provided with any credit toward a downpayment (e.g., equity) for the significant labor they were contributing to the construction of the property. This was not consistent with the statutory purposes of SHOP and created a situation in which the benefit of the federal subsidy was not accruing to the homebuyer. This provision ensures that homebuyers who make substantial contributions of time and labor receive a minimal amount of equity in their homes at closing.

Mr. Diaz-Balart #38

SHOP Program Minimum Wage

Mr. Secretary, the charities that run SHOP, like Habitat for Humanity, are telling us that the new sweat equity requirement does not align well with the "self-help" model. Minimum sweat equity can negatively affect underlying mortgage amounts among other problems.

Question: Is HUD willing to work with SHOP grantees and their partners and provide some flexibility to address problems created by this new policy?

Answer: The minimum sweat equity valuation was included in the fiscal year 2015 SHOP Notice of Funding Availability (NOFA) because several grantees were failing to live up to the intent of the SHOP statute which states that "assistance provided under this section is used to facilitate and encourage innovative homeownership opportunities through the provision of self-help housing, under which *the homeowner contributes a significant amount of sweat equity* towards the construction of the new dwelling." The 2015 NOFA requires grantees to provide a minimum valuation of $1,000 per 100 hours of sweat equity ($500 for single person households contributing the minimum 50 required sweat equity hours.) The inclusion of a minimum $1,000 per 100 hours of sweat equity valuation, (or $500 per 50 hours for single person households) is nominal and has little effect on the overall mortgage amount. Grantees are encouraged to provide a higher rate or require additional hours of sweat equity to ensure a lower acquisition cost to the homebuyer.

Mr. Diaz-Balart #39

Technical Assistance Increase

Mr. Secretary, you have requested a $100 million increase for research, evaluations, technical assistance, and capacity building by transferring money out of HUD's most important housing and development programs. At the same time, you are asking Congress to cut CDBG by $200 million and to cut HOME by $10 million.

Question: Can you explain why the Administration wants to increase funding for consultants and contractors, while cutting programs like CDBG and HOME? Wouldn't communities rather get more resources than more bureaucrats?

Answer: In some communities, particularly the most distressed communities who most need CDBG, HOME, and housing assistance, grantees have difficulty successfully implementing programs and ensuring adequate oversight and governance of the funding they do receive. Technical Assistance is HUD's primary tool for identifying the underlying causes of community challenges and providing the direct assistance and training tools to address those challenges. CDBG and HOME funding levels are determined independent of amounts sought for technical assistance needs.

Mr. Diaz-Balart #40

Technical Assistance Increase

The transfer requested in the budget to fund this increase would lower funding for Section 8 housing by nearly $60 million, and lower Public Housing funding by more than $30 million.

Question: Again, Mr. Secretary, this seems like misplaced priorities. With thousands of people on waiting lists for a housing subsidy, why would we reduce housing accounts by almost $100 million to pay for demonstrations and technical assistance consultants? Is that really a worthwhile trade-off?

Answer: We understand in a constrained fiscal environment that every dollar counts and it is for this exact reason we are targeting resources toward research and technical assistance in the Department's budget request. HUD invests billions of dollars each year in housing assistance and it is critical that these programs are implemented and managed properly, efficiently, and effectively to achieve maximum outcomes for the families and communities that we serve. This small research and technical assistance investment, which represents just two-tenths of one percent of the Section 8 and Public Housing program request, provides valuable technical assistance needed to administer our housing programs and research to evaluate and inform policy decision to improve program performance. HUD is confident that the programs can accommodate these small reductions and in the long-run this trade-off will improve the cost effectiveness of our programs.

Mr. Diaz-Balart #41

Technical Assistance Increase

Question: Why does the budget fund research and technical assistance by transfers from other accounts instead of a simple, direct appropriation for these activities? It is as if the Administration wants to hide the fact that it is asking for these funds which I could understand given the implied trade-offs. But you are in fact funding them, so why not just ask for the funding directly? Why the sleight of hand?

Answer: As HUD's Research & Technology justification states, the decision to allocate a fixed percentage of each program's budget to research and technical assistance is an intentional reflection of the Department's enterprise-wide commitment to integrate evidence and cross-disciplinary intelligence throughout program policy, management, and operations. Indeed, OMB has recognized the value of such transfers for other agencies and programs, as documented in the "Building and Using Evidence to Improve Results" supplement to the Budget. (Examples include proposed authority for HHS to set aside 1.5 percent of the Social Services Block Grant for research and evaluation; an increase in DOL set-aside authority to 1 percent of affected accounts; and new set-aside authority to fund evidence-based, innovation projects for more effective nutrition programs for older Americans. See https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/fact_sheets/Building%20and%20Using%20Evidence.pdf.)

HUD believes that the Administration's recent emphasis on evidence-based policy has potential to greatly facilitate congressional oversight. Many federal agencies have struggled to break down the inward-looking walls of program cylinders and create an open culture of evidence-driven policy. HUD's request for program transfer authority reflects a presumption that setting aside a small, consistent fraction of program resources across the Department to research, evaluate, and improve programs is by any standard a reasonable cost of business, and will greatly improve the cost-effectiveness of programs in the long run. The Results for America organization has articulated 1 percent of program spending as a reasonable benchmark for such investment in evidence-based innovation (http://results4america.org/policy/invest-in-what-works-indexes/).

Mr. Diaz-Balart #42

Performance-Based Contract Administrators

Performance-Based Contract Administrators (PBCAs) play a critical role in providing administrative services to support the Department of Housing and Urban Development's (HUD) project-based Section 8 program, which provides affordable housing to more than 1.2 million Americans nationwide. For more than a decade, PBCAs have helped HUD become a leader among federal agencies in reducing improper payments, and have helped lift HUD out of the Government Accountability Office's (GAO) "high risk agency" category.

Mr. Secretary, after years of the courts and Congress telling HUD to competitively rebid the PBCA contracts, and with HUD's own analysis supporting that a competitive procurement process would save $100 million, we are eager to hear the progress HUD has made toward re-competing these contracts.

Question: First and foremost, will HUD commit to conducting a fair and open competition among Public Housing Agencies for these PBCA contracts?

Answer: HUD is committed to conducting a fair and open competition that complies with the ruling of the Federal Circuit's decision directing the Department to acquire administrative services pursuant to federal procurement laws and regulations. Consistent with the court's directive, HUD is developing a strategy to obtain PBCA services through a process that will ensure compliance with the Competition in Contracting Act and the Federal Acquisition Regulation.

Mr. Diaz-Balart #43

Performance-Based Contract Administrators

Question: More specifically, will HUD re-commit to the principles for re-competing the PBCA contracts that HUD laid out in 2009 when it first began to discuss this in earnest:

a. market-driven, competitive approach
b. encouraging PBCAs to operate in multiple states to capture cost efficiencies and economies of scale
c. taking advantage of Public Housing Agencies' experienced personnel and readily available resources.

Answer: The Department has hired a consultant to assist HUD in analyzing best practices of current service providers, assessing opportunities to utilize existing commercial products/processes, ensuring compliance with small and minority business requirements, and interviewing subject matter experts both inside and outside of HUD to determine the optimal acquisition strategy to obtain PBCA services. HUD anticipates that the consultant will consider and weigh the above criteria in preparing the recommendation to be presented to HUD senior leadership.

Mr. Diaz-Balart #44

Performance-Based Contract Administrators

Over 5 years ago, HUD told PBCAs to stop doing annual management and occupancy reviews (MORs) of the properties they administer. MORs are a critical tool to detect improper payments, protect residents, and ensure PBRA assets are financially and physically healthy.

Question: Will HUD commit to reinstating MORs under the existing PBCA contracts and maintaining MORs as an essential part of any re-competed PBCA contract?

Answer: Post 2011, the funding level request for the PBCA program was reduced, in anticipation of new cooperative agreements to be executed in 2012 that would yield cost savings if implemented. When the execution of these new agreements was stayed due to litigation, HUD was forced to extend the existing agreements in order to ensure uninterrupted administration of the PBRA program. In order to do so within the lower anticipated funding levels, HUD had to eliminate some services (notably MORs) from the agreements. HUD anticipates that the new PBCA contract awards will include MORs to continue to provide essential oversight of assets with PBRA.

In the interim, the Department is conducting risk-based MORs on troubled properties to assess owner performance and compliance with use agreements and contracts for assistance.

Mr. Diaz-Balart #45

Continuum of Care Program

For several years this committee has directed the Department to makes its Continuum of Care Program more competitive, and not just renew projects as a matter of course. In other words, we want you to use the money we appropriate to this program better.

Question: Can you tell me how your Department has been responsive to the Committee?

Answer: The Department has increased the competitive nature of the Continuum of Care program and incentivized the use of funds for proven strategies in several ways over the past several years, most markedly in the 2015 CoC Competition.

Specifically:

- HUD has increased points for communities that reallocate obsolete, ineffective or outdated projects to proven strategies like permanent supportive housing and rapid re-housing. In 2014, 166 communities created 287 new projects through reallocation. We saw even more in 2015.
- HUD has increased the number of points for performance, which encompasses both project and system level performance for key indicators. Programs AND systems are being held accountable for ensuring that people who present for assistance are served effectively and efficiently.
- In the most recent 2015 CoC Competition, HUD made funding significantly more competitive, and renewal projects are not guaranteed to receive an award. There were increased incentives for CoCs to reallocate projects voluntarily, and the process has been made much more competitive so that even if a community submits a renewal projects, it will not be assured of receiving funding. While this approach is difficult and will result in some renewals not being funded, it clearly requires communities to make the most of their limited resources at the local level and invest in strategies that are effective in order to be competitive nationally.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Congressman David Joyce
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Joyce #1

Federal Flood Risk Management Standard (FFRMS)

Question: Under President Obama's Executive Order 13690, agencies must choose amongst three options to redefine the floodplain for all federal actions. In the current Unified Agenda released in the Fall, HUD described a forthcoming proposed rule-making to implement the Executive Order, stating new construction or substantial improvement in a floodplain must be elevated or flood proofed 2 to 3 feet above the 100 year floodplain. Does this mean that HUD plans to use the free-board approach to implement the Executive Order?

Answer: HUD currently plans to use the freeboard approach, while allowing states and local governments to elevate higher if state or local code requires. HUD will perform an open and public rulemaking to implement the standard. The rulemaking will include a public comment process.

Mr. Joyce #2

Federal Flood Risk Management Standard (FFRMS)

Question: Are there any maps that indicate the extent of the floodplain based upon the 2-3 foot elevation? If not, do you plan to create such maps (please note that raising the base flood elevation by 2 feet also expands the horizontal floodplain and this is determined by the topography of the region – a flat topography would see a greater expansion of the floodplain)?

Answer: HUD is committed to ensuring that proper information and means of analysis about floodplains are distributed to the public, and is currently working with our federal partners to discern the best way to provide that information.

Mr. Joyce #3

Federal Flood Risk Management Standard (FFRMS)

Question: How should builders and developers know if their project is in the floodplain and thus have to comply with the Floodplain EO?

Answer: This executive order should change very little of the current process used by builders and developers. The floodplain management process is one component of the environmental review process. The environmental review process is done before decisions and made and actions are taken. These reviews occur before construction contracts are signed and before construction begins. It is a decision-making process. The environmental review process might dictate the materials and construction methods used, timing of construction, as well as elevation standard. The developer and builder are not expected to know these construction requirements; it is the legal responsibility of HUD or the state, tribe, or unit of local government conducting the environmental review to inform the developer of any construction requirements.

In the vast majority of cases, builders can simply look at the FEMA Flood Insurance Rate map, as they would do now, and compare this data to available topographic data or data from surveys, which are already required for FHA multifamily and health care properties. Alternatively, as is also now the case, builders and developers can consult with HUD (or state and local governments with the ability to perform HUD environmental reviews by law) for a determination. If a project is in the currently mapped Special Flood Hazard Area, HUD or the state, tribe, or unit of local government conducting the environmental review will require residential buildings to be elevated to the base flood elevation. E.O. 13690 adds two feet to the base flood elevation requirements (or three feet in the case of critical structures such as nursing homes and hospitals, few of which are constructed in floodplains using HUD funding).

Mr. Joyce #4

Federal Flood Risk Management Standard (FFRMS)

Question: What is HUD's estimated cost to comply with the Floodplain EO?

Answer: HUD has not finalized a Regulatory Impact Analysis, but it will be included in the rulemaking. Current preliminary estimates show substantial benefits. As sea level rise continues, these benefits will continue to increase as well. The preliminary estimates show substantial benefits due to savings on flood insurance premiums. Benefits will also be accrued due to decreased flood damage and fewer displaced tenants and workers. A lack of a home and job is a level of uncertainty and stress that can cause severe trauma for families.

FEMA's current maps, used for both flood insurance and floodplain management, are only based on the data available at the time of mapping. An analogy to this is driving by only using the rearview mirror. By incorporating a larger margin of error/uncertainty, the new elevation standard is an effort to alleviate the National Flood Insurance Program's current inability to address climate trends and population growth in a measured and common sense way.

In the last couple of years, the world has experienced alarming and record setting weather events and natural disasters. Typhoon Haiyan, Hurricane Patricia, and Cyclone Winston have all set records for storms in the last three years. Meanwhile, in the United States, in just the last 6 months, rain events in northern Louisiana and South Carolina have brought record floods that surpassed previous risk estimates. It is becoming clear that a failure to account for increased risk will have greater costs than this practical freeboard standard.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Congressman John Culberson
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Culberson #1

Family Self-Sufficiency Program

The Family Self-Sufficiency program enables families assisted through the Housing Choice Voucher program, public housing residents, and residents of Native American Housing Assistance and Self-Determination Act-assisted housing to increase their earned income and reduce their dependency on welfare assistance and rental subsidies.

However, in the FY15 data outlined in the FY17 budget request shows that of the 71,000 household participants, only 4,245 families graduated from the program and only 1,529 of those families exited rental assistance within one year of leaving the program.

Question: I understand that HUD has a program to increase earned income and promote self-sufficiency. You state in your budget that of the 71,000 participants in FY15, only 4,245 graduated and, of these, only 1,529 exited rental assistance. This sounds like a 2 percent success rate. What are you doing to increase the effectiveness of this program?

Answer: FSS is a five-year program (with a possible two year extension). If we consider only the standard five year contract, the maximum success rate is a graduation rate of 20% of the entire enrolled number of participants. Twenty percent of 71,000 is 14,200. With 4,245 FSS participants graduating in fiscal year 2015, this calculation gives us an approximate 30% graduation rate (4,245/14,200).

In addition, these numbers do not reflect several important factors. An important point is that some FSS participants benefit from the program through increased earnings even without graduating. Some of these families choose to leave housing assistance before they have completed their FSS contracts, at which point they are no longer eligible to continue in the FSS program. While not technically a graduate, an FSS participant who increases his or her earnings and chooses to move out of housing assistance before completing all of their obligations under FSS can be considered a success as well.

FSS is also a completely voluntary program for motivated individuals that is open to every resident. This includes seniors (4% of FSS Heads of Household), people with disabilities (12-14% of FSS Heads of Household), people with limited English language skill, low literacy/numeracy skills and/or little-to-no experience in the workforce. It is the duty of the FSS Program Coordinator to work with all participants and be a motivating and enabling force. Many with even the biggest challenges are successful, but, as can be expected, not all are able to successfully follow through on the terms of the Contract of Participation.

It also must be noted that, while some FSS graduates choose to leave housing assistance to purchase a home or move into market-rate housing, the goal of the FSS program is not to require all FSS graduates to leave housing assistance immediately. The goal is to become employed, leave cash welfare assistance, and increase earned income. The increased rent that is paid to the Housing Authority upon graduation from the program is added to the PHA's Operating Budget (for Public Housing) or HAP account (for HCV), thus enabling the PHA to serve more families. In addition, for public housing, families with increased earned income that stay in the community effectively serve to create a mixed-income neighborhood. The average escrow account, for those graduates with an escrow, is $6,500. This is a significant asset for participating families, but not enough to move into homeownership in most housing markets. In addition, many families choose to use the escrow funds to continue to repair credit or pay for continued education for themselves or their children – further steps toward sustained self-sufficiency.

A national evaluation sponsored by HUD provides more detail on the outcomes of FSS. This study tracked 170 families in the Housing Choice Voucher program who enrolled in FSS at 13 housing authorities over a four-year period – which is about a year short of the standard five-year FSS contract period. After four years, about one-quarter of the families had graduated, experiencing increases in earnings from $19,902 in 2006 to $33,390 in 2009 and escrows averaging more than $5,000 per family(all in 2009 dollars). Another one-quarter were still in the program and experiencing sizable increases in both hourly wages and hours worked, with escrow balances averaging around $3,500. About one-sixth were still in the FSS program but not making progress. The balance was no longer in the FSS, although this includes many who left the voucher assistance program all together. [1]

The Department considers the success of the program a priority and has committed technical assistance resources to continue to improve outcomes. The contracted Technical Assistance (TA) provider has convened a group of FSS experts drawn from representative FSS programs from across the country. Supported by outside funds from the McArthur Foundation, this group has met three times to confer on best practices in managing FSS programs, and highlighting the more effective ones. The TA provider will produce a Best Practices guidance document as well as a web-based training on FSS best practices that will be made available to all PHAs, as well as HUD staff.

In addition, the TA provider is working with HUD program staff to develop a composite performance score that will reflect several outcome measures to evaluate each FSS program. These scores will be used to target monitoring and technical assistance provision that will either result in improved outcomes or indicate that resources should be redistributed to stronger and/or new programs.

[1] De Silva, Lalith, Imesh Wijewardena, Michelle Wood, and Bulbul Kaul. 2011. Evaluation of the Family Self-Sufficiency Program: Prospective Study. Washington, DC: U.S. Department of Housing and Urban Development. This evaluation did not include a control group. MDRC is currently conducting a random assignment evaluation of FSS on behalf of HUD that does include a control group, but results are not expected for several years.

Mr. Culberson #2

Educational Services Accessibility

Public Housing site and neighborhood standards for a new development: 24 CFR 905.602(d)(8) – "The site shall be accessible to social, recreational, educational...services that are at least equivalent to those typically found in neighborhoods consisting largely of similar unassisted standard housing."

Question: It is my understanding that federal regulations require that public housing be accessible to educational services equivalent to those found in an average unassisted neighborhood. It seems clear to me that in order for a child to have equivalent opportunity, there would need to be capacity in the school for that child. Does HUD consider capacity of schools in an area when considering accessibility?

Answer: Prior to the development of a project which will contain public housing units, each proposed site must be reviewed and approved by the HUD field office as meeting the site and neighborhood standards in 24 CFR 905.602, including the equivalent accessibility to educational services required by 24 CFR 905.602(d)(8). The local HUD Field Office completes the site and neighborhood review for all new construction projects, whether the project is mixed-finance or 100% public housing. As part of this review, the Field Office typically reviews not only the quality of the local schools, but also the schools' capacity and ability to serve public housing residents. This information is communicated to the HUD project manager responsible for the overall review and approval of a new construction project.

Answer: Prior to the development of a project, which will contain public housing units, a PHA must submit a Development Proposal to HUD for review and approval, which complies with 24 CFR 905.606. Specifically, 24 CFR 905.606 states that a new construction project must comply with the provisions of 24 CFR 905.602. One of the provisions of 24 CFR 905.602 is site and neighborhood standards--each proposed site must be reviewed and approved by the field office as meeting these standards.

Among a variety of factors that are reviewed, 24 CFR 905.602(d)(8) states, "The site shall be accessible to social, recreational, educational, commercial, and health facilities; health services; and other municipal facilities and services that are at least equivalent to those typically found in neighborhoods consisting largely of similar unassisted standard housing...."

HUD will complete the site and neighborhoods review. This review typically includes the quality of the local schools, capacity, and ability to serve public housing residents. In the case of mixed-finance projects, this information is communicated to HUD staff reviewing these projects. This information is incorporated into the overall review of the new construction project.

Mr. Culberson #3

Public Notice Requirements

Requirements for public notice of a public housing agency plan:

(f) Public hearings
(1) In general
In developing a public housing agency plan under this section, the board of directors or similar governing body of a public housing agency shall conduct a public hearing to discuss the public housing agency plan and to invite public comment regarding that plan. The hearing shall be conducted at a location that is convenient to residents.
(2) Availability of information and notice
Not later than 45 days before the date of a hearing conducted under paragraph (1), the public housing agency shall—

> **(A)** make the proposed public housing agency plan and all information relevant to the hearing and proposed plan available for inspection by the public at the principal office of the public housing agency during normal business hours; and
> **(B)** publish a notice informing the public that—
>
> > **(i)** that [1] the information is available as required under subparagraph (A); and
> > **(ii)** that [1] a public hearing under paragraph (1) will be conducted.

Public Housing Authorities have a very weak public notice requirement. They are only required to post these plans at the principal office of the public housing agency during normal business hours. However, if the intent is to ensure that community is aware of these plans, these notices are not doing the job.

<u>Question:</u> Prior to HUDs approval of an agency plan for a new project, how does HUD insure that the impacted local community is aware of how tax dollars are being spent in their neighborhood? What are HUDs public notice requirements for new projects?

<u>Answer:</u> PHAs are required by HUD regulations located at 24 CFR 903.17 to undertake the following outreach activities in advance of HUD reviewing and approving an annual plan:

1) Hold a public hearing regarding the plan.

2) Not later than 45 days before the public hearing is to take place, the PHA must:

> (a) Make the proposed PHA plan(s), the required attachments and documents related to the plans, and all information relevant to the public hearing to be conducted, available for inspection by the public at the principal office of the PHA during normal business hours. It is noted that many PHAs make these plans available on their websites as well;

(b) Publish a notice informing the public that the information is available for review and inspection, and that a public hearing will take place on the plan, and the date, time and location of the hearing.

(3) Conduct outreach activities to encourage broad public participation in the PHA plans.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Ranking Member David Price
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Price #1

Tenant-Based Rental Assistance

Question: Provide a list of all PHAs that have turned back HUD-VASH vouchers in each of the past 3 fiscal years.

Answer: See below for a list of PHAs that were offered HUD-VASH vouchers and turned down the offer.

PHAs that Declined HUD-VASH Offer

2013 HUD-VASH Decliners	
HA Code	PHA Name
AR002	North Little Rock Housing Authority
KS004	Wichita Housing Authority
MN038	Housing and Redevelopment Authority of St. Cloud, Minnesota
MN177	Otter Tail County Housing and Redevelopment Authority
NY001	Syracuse HA
OH007	Akron Metropolitan Housing Authority
OH015	Butler Metropolitan Housing Authority
OH021	Springfield
OH044	Allen Metropolitan Housing Authority
PA013	Housing Authority of the City of Erie
PA036	Lancaster
PA052	Housing Authority of the County of Lebanon
TN007	Jackson Housing Authority
TX010	Housing Authority of the City of Waco
VA011	Roanoke Redevelopment & Housing Authority
WI031	Wausau Community Development Authority
WI068	Wisconsin Rapids
WV006	Housing Authority of the City of Martinsburg
WV010	Housing Authority of the City of Keyser

2014 HUD-VASH Decliners	
HA Code	PHA Name
AL006	Housing Authority of the City of Montgomery
AR104	Springdale Housing Authority
FL015	Northwest Florida Regional Housing Authority
GA011	Housing Authority City of Decatur
KY015	Housing Authority of Newport
MS005	The Housing Authority of the City of Biloxi
ND002	Housing Authority of the City of Williston
OH007	Akron Metropolitan Housing Authority
OH027	Medina Metropolitan Housing Authority
OH029	Ashtabula Metropolitan Housing Authority
OH045	Darke County Metropolitan Housing Authority
PA009	Reading Housing Authority
TN038	Morristown Housing Authority
TX023	Beaumont Housing Authority
TX032	Texas City Housing Authority

2015 HUD-VASH Decliners	
HA Code	PHA Name
AR181	Fayetteville Housing Authority
CA033	County of Monterey Housing Auth
CA086	County of Humboldt Housing Authority
CO049	Lakewood DBA Metro West Housing Authority
CT007	Stamford Housing Authority (Charter Oak Communities)
GA007	Housing Authority of the City of Macon
IA050	Waterloo Housing Authority
IL107	North Chicago Housing Authority
KS166	Cowley County PHA
NY079	Glens Falls Housing Authority
OR032	Northeast Oregon Housing Authority
PA008	Harrisburg Housing Authority
PA008	Harrisburg Housing Authority
WV010	Housing Authority of the City of Keyser

Mr. Price #2

Tenant-Based Rental Assistance

Question: Provide a list of all PHAs that have terminated or consolidated their tenant-based Section 8 programs in each of the past 3 fiscal years.

Answer: See the table below for a list of PHAs and a summary by fiscal year.

DIVESTING HA#	DIVESTING PHA NAME	EFFECTIVE DATE OF TRANSFER
NY517	Village of Lake Placid	1/1/2013
NJ091	Paterson Dept of Comm Dev	1/1/2013
TX367	Kyle Housing Authority	1/1/2013
CO065	City of Lamar HA	1/1/2013
AR201	Walnut Ridge	1/1/2013
AR202	Hoxie	1/1/2013
WV014	Benwood-McMechen HA	1/1/2013
TX428	Hallettsville HA	1/1/2013
WI262	Oconto County HA	1/1/2013
TN095	Shelby County HA	1/1/2013
SD038	Miller Housing & Redevelopment Commission	1/1/2013
WI039	Wittenberg HA	1/1/2013
FL098	Green Cover Springs HA	4/1/2013
IA123	Bettendorf HA	7/1/2013
MO070	HA of Richmond	7/1/2013
FL140	Jefferson County Board of County Commissioners	7/1/2013
NY115	City of White Plains	7/1/2013
NJ115	Cherry Hill HA	7/1/2013
NC158	Harnett County Dept. of Housing Services	7/1/2013
MI188	Madison Heights Housing Commission	7/1/2013
IL001	East St. Louis Housing Authority	10/1/2013
CT022	New London HA	10/1/2013
AL103	HA of the City of Hartford	11/1/2013
IN103	Marshall County HA	11/1/2013
MO080	HA of the City of Oren	11/1/2013
NM069	Mountainair Housing Authority	1/1/2014
TX326	Yoakum HA	1/1/2014
CT025	Winchester HA	1/1/2014
VA043	Roanoke Total Action Against Poverty	2/1/2014

DIVESTING HA#	DIVESTING PHA NAME	EFFECTIVE DATE OF TRANSFER
PA049	Bradford HA	1/1/2014
IN083	Sellersburg HA	1/1/2014
IL911	Illinois Department of Commerce and Economic Development	1/1/2014
MO076	East Prairie Public Housing Agency	1/1/2014
KS163	HA of the City of Hutchinson	1/1/2014
KS105	Junction City Housing Authority	2/1/2014
TX469	Navasota Housing Authority	7/1/2014
TX318	Marfa Housing Authority	7/1/2014
MN051	City of Willmar	7/1/2014
ME031	Saco Housing Authority	7/1/2014
NY055	Town of Oyster Bay HA	7/1/2014
OK150	Del City HA	7/1/2014
WI207	Eau Claire HA	8/1/2014
WI263	Taylor County HA	7/1/2014
IL115	Henderson County HA	7/1/2014
MO208	New Madrid County	7/1/2014
NM038	Taos County HA	8/1/2014
WI259	New Berlin HA	9/1/2014
WI261	Waukesha County HA	9/1/2014
OH065	City of Middletown	11/1/2014
IA133	Mid Iowa RHA	10/1/2014
IL094	Livingston County HA	11/1/2014
CO889	The Center for People with Disabilities	1/1/2014
MO880	Community Housing Network	1/1/2014
VA880	Piedmont Housing Alliance	7/1/2014
MA884	Brockton Area Multi-Services	1/1/2015
TX232	HA of Beckville	1/1/2015
FL880	Housing Partnership, Inc.	1/1/2015
NY568	Town of Poughkeepsie	1/1/2015
WA019	Kalama HA	1/1/2015
CA122	City of Hollister	1/1/2015
GA266	City of Marietta HA	1/1/2015
CA107	Yuba County	1/1/2015
PA066	HA of the City of Corry	1/1/2015
TX024	Commerce HA	1/1/2015
IN069	Fulton County HA	1/1/2015
MN045	East Grand Forks	1/1/2015
VT011	Saint Albans City Housing Authority (SACHA)	1/1/2015
WA069	Ferry County Joint Housing Authority	1/1/2015
VA045	Martinsville RHA	7/1/2015

DIVESTING HA#	DIVESTING PHA NAME	EFFECTIVE DATE OF TRANSFER
WV013	Buckhannon HA	4/1/2015
TX033	Corsicana HA	7/1/2015
WI050	Rice Lake HA	7/1/2015
NC043	Troy HA	7/1/2015
AL010	Fairfield Alabama HA	4/1/2015
NY039	Ogdensburg HA	7/1/2015
MO219	ABCD Housing Authority	7/1/2015
FL096	Wakulla County Board of Commissioners	8/1/2015
NY893	Transitional Services of New York for Long Island	10/1/2015
NY894	Family & Children's Association	1/1/2016
TX291	Grapevine HA	1/1/2016
NY432	Town of Horseheads	1/1/2016
TX564	Alamo Area Council of Governments	1/1/2016
MN010	South St. Paul HRA	1/1/2016
MA126	Bridgewater HA	1/1/2016
FL143	Polk County HA	4/1/2016
MN186	Clearwater County HRA	3/1/2016

FY	Total by Year
2013	25
2014	29
2015	24
TOTAL 2013-2015	**78**
2016	8

Mr. Price #3

Tenant-Based Rental Assistance

Question: How many HUD-VASH vouchers are currently available for use?

Answer: Since 2008, HUD has awarded 79,878 HUD-VASH vouchers to 469 PHAs across the country. As of February 29, 2016, 68,165 of these vouchers were leased, with an additional 5,932 issued to Veterans looking for housing. There are currently 4,794 HUD-VASH vouchers available for issuance. Additionally, approximately 1,000 vouchers (987) are not yet available for use as they were awarded as new construction or rehabilitation project-based vouchers and are not included in the total units available. These vouchers will be included in the utilization calculations as the newly constructed or rehabilitated units are completed and brought on-line.

Mr. Price #4

PHAs in Receivership

Question: How many PHAs in receivership does the department plan to return to local control in FY 2016?

Answer: HUD is planning to return or reposition one PHA to local governance in late fiscal year 2016. However, the ultimate timing of this transition will be dependent on a number of factors, including but not limited to: state law; advisory board appointments and training, including Lead The Way, an online tool that provides training to PHA boards and staff in providing effective governance and oversight; the successful negotiation and execution of a Transition Agreement and Enhanced Monitoring Plan; and filling of key PHA vacancies.

Mr. Price #5

PHAs in Receivership

Question: How many PHAs in receivership did the department plan to return to local control in FY 2015?

Answer: In FY 2015, the department planned to return (and did return) one of five PHAs in receivership, the Detroit Housing Commission, to local governance.

Mr. Price #6

NGMS Status Update

Question: What is the status of the NGMS project?

Answer: The Next Generation Management System (NGMS) is a business-driven investment, designed to enhance HUD's affordable housing (AH) program management, improve end user satisfaction, streamline complex business processes, and integrate disparate Information Technology (IT) systems into a common, modernized platform. These goals will help improve the Agency's ability to accurately quantify budgetary data resources, measure program effectiveness, and justify the agency's budget formulation and requests. By aligning current and future AH processes, HUD aims to consolidate business operations and maximize investment returns with business-driven, service-oriented solutions that employ shared and standardized technology. NGMS will provide an integrated, seamless and singular view of financial and program data used to make real-time business decisions, but are currently warehoused in disparate data sources.

Important milestones achieved include the delivery of important portions of the Budget Formulation and Forecasting project, including data validation and partial budget versions and budget formulation. The planned delivery of full budget versions, Mod Rehab, scenarios, Mainstream 5 and budget formulation is planned for the third quarter of calendar year 2016, providing full functionality to HUD for future year budget efforts. Additionally, the Portfolio and Risk Management Tool (PRMT) continues to progress, with initial operating capability delivered in September 2013, and supplemental operating capability delivery planned for the fourth quarter of calendar year 2016. PRMT integrates data from various HUD IT systems into user-friendly "dashboards" that enhance HUD's ability to analyze trends, make better projections, more easily identify issues, and increases HUD's efficiency and effectiveness in utilizing appropriated funds. PRMT also supports HUD's goal of achieving a standard of operational excellence, while supporting the ability to meet HUD's mission of creating strong, sustainable, inclusive communities and quality, affordable homes for all.

In fiscal year 2017, the focus of NGMS will be on completing an enterprise effort between PIH and OCIO: This effort includes the replacement of PIH's Information Center (PIC), and development of an Enterprise Voucher Management System (eVMS), also known as the Voucher Financial Management System (VFMS). This project will enable PIH to calculate its' Housing Assistance Payment (HAP) funds based on near real-time data, and perform continuous budget reconciliations for the Housing Choice Voucher (HCV) program. This project will also, support the decommissioning of VMS and HUDCAPS. Additionally, in FY 2017, NGMS will begin developing an Operating Subsidy module. This system will enable HUD to better carry out mission critical programs by automating business processes to improve the way HUD collects, analyzes and uses information to reduce Public Housing Authority (PHA) reporting burden and allow HUD staff to more effectively use data in making day to day decisions.

Mr. Price #7

NGMS Status Update

Question: Provide a detailed accounting of DM&E expenditures, both planned and actual, for the FY 2014, FY 2013, FY 2014 and FY 2015 that directly support NGMS.

Answer: See table below.

NGMS Obligations by Source Year
($ in thousands)

	FY 2013		FY 2014		FY 2015	
	Planned	Actual[1]	Planned[2]	Actual	Planned	Actual[3]
Cash Management Phase 2	$688	$688	$-	$-	$ -	$-
Affordable Housing Data Architecture Phase 2	$680	$680	$-	$ -	$ -	$ -
Affordable Housing Life Cycle Information Center – Requirements Definition	$1,952	$1,952	$-	$ -	$-	$ -
Project Portfolio & Risk Management Tool Phase 2	$680	$680	$812	$812	$ -	$ -
Project Management Support	$-	$-	$1,185	$1,185	$-	$-
Budget Forecasting and Formulation Voucher Tool	$ -	$-	$2,475	$2,075	$552	$943
Total NGMS Obligations	**$4,000**	**$4,000**	**$4,472**	**$4,072**	**$552**	**$943**

1/ Funding for NGMS is awarded by vendor and multiple vendors work on multiple NGMS modules; obligations by module as provided in the table are estimates.
2/ Planned obligations include $400K from FY 2014 expenditure plan and $4.072 million from No Year funds.
3/ Actual obligations include $552K of No Year funds and $391 of carryover from FY14.

Mr. Price #8

Choice Neighborhoods Initiative

Question: For each round of CNI applications, please provide the number of applicants, the amount requested and the number and amount awarded. For implementation grants, please provide the estimated cost of the project, if available.

Answer:

Implementation Grants

FY Funding in NOFA	Applicants	Awards	%	Amount Awarded
FY 2010/2011	42	5	12%	$ 122,270,000
FY 2012	42	4	10%	$ 108,980,000
FY 2013	44	4	9%	$ 119,700,000
FY 2014/2015	33	5	15%	$ 149,750,000
Total	**161**	**18**	**11%**	**$ 500,700,000**

*Applications for FY2016 Implementation Grants are due on June 28, 2016. HUD expects to announce awards in December 2016.

Planning Grants

FY Funding in NOFA	Applicants	Awards	%	Amount Awarded
FY 2010	118	17	14%	$ 4,000,000
FY 2011	71	13	18%	$ 3,600,000
FY 2012	72	17	24%	$ 4,950,000
FY 2013	52	9	17%	$ 4,374,000
FY 2014	51	7	14%	$ 3,242,500
Total	**364**	**63**	**17%**	**$ 20,166,500**

*Applications for FY2015/2016 Planning Grants were due on February 9, 2016 and are currently under review. HUD expects to announce awards in July 2016.

Since the Implementation Grants are still underway, we do not have a firm estimated total project cost for all the grants. Based on their grant applications and the leverage commitments included in those, projected costs range from $63 million to more than $1 billion. The average is approximately $255 million.

Mr. Price #9

Choice Neighborhoods Initiative

Question: Please provide a list of planning grant recipients who later received implementation grants.

Answer: See below.

Locality	FY Planning Grant Awarded	FY Implementation Grant Awarded
1. San Antonio, TX	2010	2012
2. Columbus, OH	2011	2013
3. Norwalk, CT	2010	2013
4. Atlanta, GA	2010	2014/2015
5. Kansas City, MO	2010	2014/2015
6. Memphis, TN	2010	2014/2015
7. Sacramento, CA	2011	2014/2015

Mr. Price #10

Choice Neighborhoods Initiative

Question: Please provide examples of how planning grant recipients are using funding. Where appropriate, please show where planning grantees utilized non-Federal funds to complete a project.

Answer: Planning Grant funds are used to cover the costs associated with developing a Transformation Plan. These costs include organizing meetings and focus groups to engage stakeholders in establishing a shared vision, conducting a household-level survey to identify resident needs and preferences, gathering other relevant data to help determine viable strategies, and performing market assessments and technical studies concerning local development issues. The planning process catalyzes momentum and helps generate early action projects. Highlighted below are some examples of progress being achieved in neighborhoods that received a Planning Grant.

Salisbury, NC: Through the Choice Neighborhoods Planning Grant process, the Housing Authority and the City of Salisbury formed a strong collaboration among their partners and the community, and established a vision to turn the West End neighborhood around. As a result of the plan, this small town secured Low Income Housing Tax Credits and leveraged HUD's Rental Assistance Demonstration to replace the deteriorating public housing complex with a mixed-income community of 170 energy efficient, accessible apartments. The entire redevelopment is expected to be complete by April 2016 and will represent a $21 million investment in the West End. Salisbury is moving forward on other major pieces of their Transformation Plan as well. To ensure access to fresh foods, the Housing Authority has partnered with Mobile Farm Fresh to provide fresh fruits, vegetables, and cooking supplies to West End residents. Livingstone College also plans to open a new culinary school and farm that will provide mentoring for middle school students and sell surplus produce at discount prices. Additionally, to improve neighborhood safety, the Salisbury Police Department has restructured divisions and beats, assigned a community police liaison for the West End, and moved its Youth-Police Athletic League events to the neighborhood. The community has also rallied to transform their neighborhood, as over 100 residents, city staff, and other stakeholders volunteered to revamp a block through landscaping, painting, and carpentry projects. This first annual event was recognized nationally by USA Magazine as a model for volunteer-driven community change.

Philadelphia, PA: In the West Philadelphia neighborhood of Mantua, partners have begun to pave the way for success. Through securing Low Income Housing Tax Credits, the Mt. Vernon Manor Apartments complex has been completely renovated. Additionally, Mt. Vernon Manor, Inc. secured a $600,000 Byrne Criminal Justice Innovation Grant from the Department of Justice to prevent and reduce crime. A partnership with the Juvenile Justice Center was also formed, which has secured a 3-year Department of Labor Face Forward workforce program in Mantua addressing the needs of roughly 200 at-risk and previously incarcerated youth. Mantua's first neighborhood association, Mantua Civic Association, was launched in 2012 and, in partnership with Mt. Vernon Manor Inc. and the City, began a zoning remapping effort. The City committed $1.2 million to revitalize recreational space, and the Mantua Collaborative, residents, and others have initiated a home repair program and beautification projects. Mantua was also designated by the President as one of the first five Promise Zones in the nation.

Significant progress has also been made to improve education due to Drexel University's involvement with the Planning Grant. The university opened the Dornsife Center for Neighborhood Partnerships in Mantua and secured a $300,000 Department of Education 21st Century Community Learning grant for Mantua's McMichael School. With funding from the Lenfest and William Penn Foundations and others, the Early Childhood Education Initiative, a collaboration between Drexel, social service organizations, education agencies, and community stakeholders, has also been launched. Finally, a year-long, community-wide, out-of-school time program, Mantua In Action, has been established to serve up to 200 neighborhood middle school youth. The Lenfest Foundation has provided multiyear funding for this initiative.

Cleveland, OH: Through the Choice Neighborhoods Planning Grant, the Cuyahoga Metropolitan Housing Authority, residents and students in "Planning Assistantships", other community members, and partners such as the City, the Sisters of Charity Foundation, and PNC Bank developed a plan to create opportunity in the Central neighborhood. The plan calls for rebuilding the deteriorated Cedar Extension development, creating retail and neighborhood amenities, and improving resident outcomes in education and health. The team was awarded Low Income Housing Tax Credits and has secured financing for two phases of redevelopment. Care Alliance, a health partner in the planning process, secured funding from a variety of sources to construct a new health care facility, which opened in 2015, adjacent to the new housing. The team also continues to work on educational and neighborhood strategies.

Albany, GA: The team in Albany credits the extensive community engagement during the Choice Neighborhoods planning process with their success in being awarded a 2013 Byrne Criminal Justice Innovation Grant, with the Georgia Department of Health as the lead organization, to tackle crime issues in the West Central neighborhood. In addition, the housing authority and the City have partnered to address housing issues. As a result of their collaboration, the State of Georgia agreed to sponsor a community housing planning effort through the Georgia Initiative for Community Housing and the team formed a Community Housing Development Corporation in order to access more financing sources.

Mr. Price #11

Choice Neighborhoods Initiative

<u>Question:</u> What types of projects does HUD anticipate funding through the Planning and Action grant category?

<u>Answer:</u> The Action Activities in the Planning and Action Grants are limited to a subset of Critical Community Improvements that can be implemented within a short time frame and with a smaller amount of funds. Lessons learned from the first rounds of Planning Grants suggest that the transition from planning to implementation can be a difficult if there are not some "early wins". Short-term successes help to improve "neighborhood confidence" – in other words, to spur greater investment and higher levels of city and stakeholder engagement.

Planning and Action Activities are intended to be projects only (no staff or supportive services) and for improvements that are not currently funded by the locality or that enhance those of the locality.

Action Activities include projects such as:

- reclaiming and recycling vacant property into community gardens, pocket parks, farmers markets, or land banking (with maintenance);
- beautification, placemaking, and community arts projects, such as creative signage to enhance neighborhood branding, murals and sculptures, specialty streetscaping, or garden tool loan programs;
- homeowner and business façade improvement programs;
- neighborhood broadband/Wi-Fi;
- fresh food initiatives, such as farmers markets and mobile fresh food vendors; and
- gap financing for economic development projects.

Mr. Price #12

Native American Programs

Question: With respect to the proposed $20 million set-aside in the Indian CDBG program, what types of projects would be funded with these funds?

Answer: The Indian Community Development Block Grant set-aside of $20 million in the 2017 Budget will be used to fund projects to support the President's commitment to Native American youth. Projects supporting native youth could include construction or renovations of community centers, health clinics, pre-school/Head Start facilities, and the provision of teacher housing. The goal of this set-aside is to further support the Administration's Native American youth priorities, including: improving education and life outcomes for Indian youth, reducing teen suicide, addressing the shortage of teachers on reservations, and improving access to the Internet.

Mr. Price #13

Native American Programs

Question: Would the ICDBG youth grant competition be national or regional?

Answer: The ICDBG youth grant competition would be regional, similar to the regular ICDBG grant competition. Each of the six Office of Native American Program (ONAP) regions would receive a representative proportion of the $20 million to ensure that projects benefiting youth will be funded in tribes in all regions of the country. This competition will use lessons learned from the recent ICDBG set-aside for mold remediation from both the ONAP perspective and feedback from tribal applicants.

Mr. Price #14

Native American Programs

Question: How would the Department work with other Federal agencies to coordinate efforts for Native Youth?

Answer: ONAP will reach out to the Department of Education (DOE), Bureau of Indian Affairs (BIA), Indian Health Service (IHS) and the United States Department of Agriculture (USDA) in conjunction with ONAP's planned Tribal Youth "Generation Ingenious" Summits, as well as in conjunction with the additional ICDBG funding. This outreach would assist in communicating agency opportunities for Native Youth Programs, and also confirm the eligibility of leveraging ICDBG funds with other agencies' funding for specific tribal projects.

ONAP's coordination efforts would also involve extensive coordination with national tribal organizations such as National American Indian Housing Council and National Congress of American Indians, as well as regional tribal associations to solicit input and involvement from the tribe's perspective and to honor the government-to-government relationship.

Mr. Price #15

Native American Programs

Question: With respect to the Indian Housing Block Grant program, how many new units of housing were constructed or renovated in the past 5 fiscal years? How many additional units could be constructed or renovated with $50 million?

Answer: In the past five fiscal years, the total number of units that were built or acquired was 8,671 and the total units rehabilitated were 23,224 for a total of 31,895. However, HUD estimates that over the life of the IHBG program, recipients have developed more than 37,700 affordable units and rehabilitated almost 77,000.

Fiscal Year	# Units Built or Acquired	Units Rehabilitated	Total Units
FY 2015	765	4,249	5,014
FY 2014	1,238	4,291	5,529
FY 2013	1,566	4,499	6,065
FY 2012	2,423	4,648	7,071
FY 2011	2,679	5,537	8,216
Total	**8,671**	**23,224**	**31,895**

Based on a 9-year history of actual outputs, ONAP estimates that an extra $50 million appropriated to NAHASDA would result in approximately 362 new or renovated affordable units. The breakdown is as follows:

- 81 additional homeownership units built or acquired
- 172 additional h/o units rehabbed
- 35 additional rental units built or acquired
- 74 additional rental rehabs

Total: 362.

Mr. Price #16

Native American Programs

Question: In the Section 184 loan program, how many tribal governments or TDHEs have applied for and how many have received loans from the program?

Answer: The Office of Loan Guarantee queried all loans made to Tribes, Tribally Designated Housing Authorities and Tribal Housing Authorities. The results confirm that fifty-four tribes and tribal entities have completed applications and received loan guarantees for loans under the Indian Housing Loan Guarantee program.

Based on the best available data, OLG staff is aware of case numbers being issued for Section 184 tribal transactions that never completed the application. There is no information available to determine why the applications were not completed.

OLG has historically operated under the theory that it is best to defer and provide assistance rather than deny. Capacity building is an important component for programs that work with underserved communities. By working with tribes and TDHEs OLG is able to make meaningful contributions in the communities.

Mr. Price #17

ROSS Grants

Question: With respect to the timing of grants, does the Department work to ensure that grantees receive funds before the expiration of the prior year's grant?

Answer: HUD makes every effort to ensure that grantees do not experience funding shortfalls. Our goal is to award funds during same fiscal year in which they are appropriated. ROSS awards are made on a three-year basis, which means that grantees have three years to expend funds. At the end of the grant period, if grantees have funds remaining, which is not unusual, HUD field offices may grant extensions, typically in six-month increments, for good cause. On the other hand, if grantees have expended all of their funds during the grant period, they may experience a shortfall if renewal funds are not awarded by the time the previous grant ends. It has been HUD's experience that some grantees find themselves in this shortfall situation. It should be noted, however, that renewal funding is not guaranteed. While renewal applicants receive a higher priority in the NOFA competition, it is made clear to the grantees that they are receiving a three-year grant only. The number of ROSS grantees is between 100 and 110 in any given year. Using fiscal year 2015 as an example, 13 of the renewal grantees did not have funding remaining at the time of grant awards in February 2016.

Mr. Price #18

ROSS Grants

Question: If the award and expiration dates do not align, what are the barriers to providing grantees with continuous funding?

Answer: The Department has recently awarded fiscal year 2015 funds for ROSS. This timing admittedly does not meet our objective of awarding funds in the same year that they are appropriated. Barriers to achieving seamless funding are largely internal to HUD. HUD is working toward improving its processes and accelerating its timeline for publishing the Notice of Funding Availability (NOFA), receiving and reviewing applications submissions, and making awards. The objective is to ensure that there is no discontinuity in funding for PHAs that are ROSS grant recipients.

To accomplish this objective, we are turning to a new automated system which will be used to process applications and we are shortening internal deadlines for the processing of fiscal year 2016 awards. For example, the funding for fiscal year 2013 grant recipients expires September 30, 2016. We have prepared the NOFA to announce the fiscal year 2016 competition. The NOFA has been cleared by OMB and will be announced in the Federal Register by next month. Based on a 45-day deadline for submission, we expect the applications to be received in time for HUD review and the selection of a new round of grantees prior to the expiration of fiscal year 2013 funding. Going forward, HUD intends to improve existing processes by beginning the award process earlier and ensuring that the intervening steps in the award process are both needed and shortened/streamlined to the greatest extent possible.

Mr. Price #19

ROSS Grants

Question: Are there costs associated with interruptions in grant funding?

Answer: There are no financial costs to HUD, but there may be costs to grantees. Grantees must either use other funds to continue to pay the salary of the ROSS-Service Coordinator (SC) while they await awards or they must terminate the SC's employment. In cases where grantees dismiss their SC, residents will lose the services that the SC performs during the lapse and, if a new person is hired, that person will need to re-establish relationships with residents and partners, the cost of which is real but difficult to quantify.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Full Committee Ranking Member Nita Lowey
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Ms. Lowey #1

PCBA Fees

Following a 2008 HUD OIG audit which raised concerns about Performance Based Contract Administration (PBCA) fees and obsolete tasks, the original PBCA Annual Contributions Contract (ACC) was amended, removing obsolete tasks and reducing fees.

Question: Since this ACC is still compliant with Public Housing Authorities statutory requirements in the United States Housing Act of 1937 and addressed concerns in the 2008 audit, why is HUD yet to provide long term extensions to the existing ACC? Does HUD intend to amend the ACC for price and task changes?

Answer: The Department plans to extend the current ACCs as necessary until the Federal Acquisition Regulations (FAR)-compliant procurement is complete and the new contractors can begin providing services under these new contracts, including a transition period. In the interim, the Department is conducting risk-based MORs on troubled properties to assess owner performance and compliance with use agreements and contracts for assistance.

Ms. Lowey #2

PCBA and Re-Procurement

A Federal Court of Appeals decision found that the Notification of Funding Availability (NOFA) based on HUD's attempt to re-procure the PBCA program in 2012 was not appropriate. The United States Housing Act of 1937 provides that ACCs may only be administered by HUD or Public Housing Agencies (PHAs). To date, PBCA portfolios have been administered between HUD and entities that have provided reasoned legal opinions confirming their eligible status as a PHA. HUD has stated that in undertaking a new procurement, it may not restrict contracts to PHAs only.

Question: How does HUD justify this position in light of Housing Act statutory requirements?

Answer: The Competition in Contracting Act (CICA) requires agencies to follow competitive procedures when conducting procurements covered by the Federal Acquisition Regulation (FAR). Absent an exception, CICA requires a procuring agency to obtain full and open competition through the use of competitive procedures in accordance with the Federal Acquisition Regulations (FAR). 41 U.S.C. § 3301(a) (1). While the Housing Act authorizes HUD to enter into ACCs with PHAs, the Act does not expressly require that HUD limit competition only to PHAs. There is no available CICA exemption that permits HUD to limit the competition to PHAs.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Congressman Mike Quigley
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Quigley #1

Lead Exposure in Section 8 Housing

Recent reports have shown numerous incidents of childhood lead poisoning in Chicago, originating from exposure to lead-based paint in homes eligible for your Section 8 housing program.

Since 2012, at least 178 children in Section 8 homes in Chicago have experienced elevated blood lead levels. Under current Department regulations, the lead based paint standard for public housing is four times the CDC-recommended level. By reviewing current regulations and risk assessment procedures, we can make sure we are adequately protecting children from lead poisoning in Section 8 and other federally subsidized housing.

Question: Local housing agencies are required to inspect properties before families move in and at least once a year after that. Are visual inspections a sufficient means of monitoring this issue?

Answer: Visual assessments for deteriorated paint provide valuable information about the condition of housing and the quality of the maintenance the property owner / manager provides. Under HUD's Lead Safe Housing Rule, for pre-1978 housing units in the Housing Choice Voucher (HCV) program (for tenant-based rental assistance) where a child under age 6 resides, a visual assessment for deteriorated paint is conducted before move-in and periodically thereafter. Deteriorated paint is treated as if it is lead-based paint, with the deterioration controlled using lead-safe work practices and the quality of the control work tested for "clearance" before the family is cleared to occupy (or re-occupy, as the case may be) the space (unless the amount of deterioration is small). Clearance is required where the work exceeds *de minimis* standards.

Visual assessments can miss sources of lead hazards, because they do not also include sampling of dust on floors, dust on window sills, and dust in bare soil for its lead content, as are done in lead risk assessments. For the HCV program and some other types of HUD housing assistance, the Department is not authorized by law to require a risk assessment, so HUD requires visual assessments for deteriorated paint, based on previous law that continues to apply. When considering the Residential Lead-Based Paint Hazard Reduction Act of 1992 (P.L. 102-550) ("Title X"), Congress was concerned that, due to the tendency of residential properties to pass in and out of tenant-based Federal assistance programs, it would be unworkable and inequitable to impose greater burdens on owners of such properties than on other private landlords (Senate Report 102-332, page 117). In his March 10, 2016 testimony to the Senate Appropriations Committee, Secretary Castro pledged to look at creating a single minimum lead assessment standard for lead-based paint across its housing to be exceeded only when statutory requirements provide for an even higher standard. The creation of such a standard may require changes to authorizing statutes. HUD will continue to keep Congress informed of its efforts and proposals to make a simpler and more effective way to prevent lead exposure among residents in HUD-assisted housing.

Mr. Quigley #2

Lead Exposure in Section 8 Housing

Question: How does the relocation process work for families who have been exposed to high levels of lead?

Answer: For the Section 8 housing choice voucher program, the Housing Quality Standards (HQS) regulations at 24 CFR 982.401 apply to families with children less than six years of age and require that the lead safety regulations at 24 CFR 35 be followed. These procedures require that if a child with an environmental intervention blood lead level ("EIBLL") is reported, the owner or agent must take prompt action to perform a lead paint risk assessment within 15 days, and if lead paint hazards are found, remediate the hazards within 30 days after the report is received. The regulations were structured this way to ensure that if lead paint in the child's environment was the source of the exposure, it would be corrected quickly. In the event that any needed remediation does not take place within the required time, the unit is considered out of compliance with HQS. At this point, a public housing agency would stop the housing assistance payments to the owner, and the tenant can use their voucher to relocate to new housing.

Mr. Quigley #3

Lead Exposure in Section 8 Housing

<u>Question:</u> How is the Administration working to improve the relocation process for families at risk?

<u>Answer:</u> HUD believes that the best way to assist families at risk of lead exposure is to make their housing unit lead safe in accordance with HUD's lead safety regulations, not relocation. If a family would prefer to move, relocation can be an option under existing flexibilities available to PHAs, including the reasonable accommodation process. Compliance with existing HUD lead safety regulations would achieve better, faster results for children at risk because it requires the home be tested, treated, and meet clearance within 45 days. Recent voucher leasing data indicate that families search on average over two months to find an acceptable unit, with even longer search times in tight rental markets.

Mr. Quigley #4

HOPWA Competitive Program

As AIDS housing and service providers adjust to meet the changing landscape of care and service delivery, providers and clients are concerned about changes in both the delivery as well as the coordination of care which have been recently implemented by HUD. Programs, such as the HOPWA Competitive Program, are making creative adjustments to better coordinate housing and services using new funding through ACA and Medicaid expansion.

Question: As we progress through this critical period of health care reform, why did the HUD budget fail to expand the HOPWA Competitive Program in FY17?

Answer: HUD does not have the authority to expand the competitive component of the HOPWA program. 42 U.S.C. 12903 of the HOPWA statute requires that 90 percent of the HOPWA appropriations is allocated by formula and 10 percent as competitive grants. This means that regardless of the amount of the HOPWA appropriations in a given year, 90 percent of those dollars will support the formula component of HOPWA. In addition, the HOPWA appropriations account language requires that the Department, with the 10 percent allocated for competitive grants, prioritize the renewal of certain expiring contracts for permanent supportive housing (current portfolio consist of 92 competitive renewal projects, of which about a third of these come in every year for renewal).

Mr. Quigley #5

HOPWA Technical Assistance Account

The HUD budget pools technical assistance resources into the larger Community Compass, formerly One CPD. Clients and providers are working to respond to the new shift in coordinated care and to the proposed updated HOPWA formula, a more targeted approach than that proposed under Community Compass. Since providers and clients know how to utilize housing as an effective intervention, a targeted pool of technical assistance resources would facilitate addressing client and provider priorities.

Question: What is the Administration's plan to provide technical assistance resources to the necessary recipients?

Answer: HUD's Community Compass initiative (Community Compass) funds technical assistance, capacity building, and data research activities in an outcome-focused, cross-departmental approach. This integrated technical assistance initiative includes HOPWA as part of the overall cross-cutting technical assistance supports available to communities. Community Compass brings together technical assistance investments from across HUD program offices, including the Office of Community Planning and Development, the Office of Housing, and the Office of Public and Indian Housing for a variety programs, policies, systems, and initiatives. Should statutory changes be made to the HOPWA formula, HUD would explore options for utilizing Community Compass resources to address the targeted TA needs related to modernization.

Mr. Quigley #6

Youth Homelessness

I know that your Department is working to better respond to youth homelessness; however, many youth providers have been critical of HUD because they feel you treat homeless youth more as "miniature adults," instead of separating youth and adult services as HHS does. Furthermore, HHS and the Department of Education use a broader definition of homelessness, whereas you use a more restrictive definition.

Question: How is the Administration working to better respond to youth homelessness?

Answer: The United States Interagency Council on Homelessness (USICH) is charged with coordinating and guiding the Administration's response to homelessness, driving action to achieve the national goals of *Opening Doors: Federal Strategic Plan to Prevent and End Homelessness*, including the goal to prevent and end youth homelessness in 2020. To get there, it will take all of US Government, nonprofits, business, and philanthropy to make sure every community has the capacity to achieve the goal. Since the adoption of *Opening Doors,* systems-level planning among the agencies most engaged in efforts to address youth homelessness has improved dramatically. Our understanding of the scope and dynamics of youth homelessness is growing.

In 2012, USICH took initial steps toward achieving an end to youth homelessness through the release of the *Federal Framework to End Youth Homelessness*. The Framework set forth two broad areas for action: 1) increasing knowledge of the scope and nature of youth homelessness; and 2) increasing community capacity to prevent and respond to youth homelessness. With the adoption of the Framework, the Council committed to a phased approach for implementing the Framework strategies.

Ending youth homelessness requires a coordinated approach from a diverse set of federal programs that support community-level responses to the crises experienced by youth. Under the guidance of the Interagency Working Group on Ending Youth Homelessness led by USICH and co-chaired with HUD and HHS, the Administration has taken action and made some notable progress. There has been improvement in how youth experiencing homelessness are identified as part of HUD's Point-in-Time counts, and the integration of HHS's Runaway and Homeless Youth Management Information System (RHYMIS) and HUD's Homeless Management Information System (HMIS) is proceeding as planned. At the same time, the current Administration has made significant investments to build existing capacity at the community level and to expand evidence of what works. Programs and services tend to operate in isolation and within the "silos" of their funding sources. Moreover, the set of programs and services for youth tend to be fragmented from larger efforts to end homelessness for other populations.

In response to this lack of capacity, the Council has taken important steps forward by providing, and calling on communities to work towards, a vision of a coordinated community response to youth homelessness, comprised of both targeted HUD and HHS programs, as well as the set of mainstream systems that encounter and share responsibility for addressing youth homelessness, namely schools, child welfare, juvenile justice, and workforce systems. In the short time since its October 2015 publication by USICH, this vision has been widely used and adopted both by national organizations and communities alike as a framework for helping guide local efforts to respond to youth homelessness. The Council has also committed to actions at the federal level to support the local implementation of this coordinated response, including:

- Developing a shared definition of 'youth homelessness' and common measures of success;
- Planning and implementing federal technical assistance and demonstration program funding included within the FY 2016 budget; and
- Developing and disseminating joint messaging, capacity-building tools, and performance measures to strengthen local efforts.

Over the next five years, USICH and its member agencies will continue to strengthen coordination and advance the implementation of the *Federal Framework to End Youth Homelessness*, improving data collection and research efforts while also strengthening the capacity of communities to respond to the needs of youth experiencing and at risk of homelessness.

HUD is working to implement the $33 million youth homelessness demonstration program appropriated by Congress in the Consolidated Appropriations Act of 2016. The President's FY 2017 budget also includes $25 million for innovative projects dedicated to serving youth experiencing homelessness. This is necessary to build on the $33 million provided in FY 2016 and will provide critical insights and resources into how to end youth homelessness. Even with the estimates we currently have available, which there is great debate about, we know we aren't investing in enough interventions to meet the need of every young person experiencing homelessness. We need to invest in America's young people; we can't afford to leave those youth who are experiencing homelessness behind. Unfortunately, most communities are not nearly as far along in their efforts to end youth homelessness as they are for Veterans. It's been four years since USICH released the federal framework for ending youth homelessness, and the resulting alignment around improving data and increasing capacity has led to readiness in several communities for these new investments. A second year of additional investments in communities will allow us test coordinated community responses more broadly, but do so in an incremental, targeted way. As we learn from these communities, our plan is to consistently translate the knowledge to additional communities across the country, allowing us to achieve critical policy and practice outcomes in the final push leading up to the goal.

We look to Congress to continue supporting the efforts of the Administration and communities across the country as they work with urgency to end youth homelessness in 2020.

Mr. Quigley #7

Youth Homelessness

Question: Will the Administration work to broaden their definition of youth homelessness so it is more inclusive for youth, including those who are doubled-up or couch surfing?

Answer: Each of the federal agencies that administer targeted homeless assistance programs, including the Department of Education, the Department of Health and Humans Services, and HUD, have different statutory definitions of homelessness. Each of our agencies' definitions are meant to help us achieve the respective goals of the specific types of assistance that we provide.

Adopting the Department of Education's definition for HUD programs would *not* mean that additional youth would be served—as long as we are working with the same amount of funding, it would only allow *different* youth to be served.

Many youth who are doubled-up or are couch-surfing are already eligible to receive services through the homeless programs at HUD because they either must leave their current living situation within 14 days, are experiencing violence in their current living situation, or are a victim of trafficking in their current living situation. For more information about how doubled-up and couch-surfing youth can be determined to be homeless for HUD's homeless programs, see the guidance document HUD recently published, called Determining Homeless Status of Youth. We have heard that third-party documentation is an issue as well, and have been highlighting existing standards which permit self-certification to document homeless status. Additionally, as directed by Congress, we are working to eliminate any remaining documentation barriers for youth experiencing homelessness.

Some providers have confused the eligibility definition with what HUD asks communities to count and report back to HUD. We ask communities to count sheltered and unsheltered people in our point-in-time (PIT) count, and do not think we have an accurate point-in-time methodology to count persons who are doubled up. We recently contributed funding to an effort being conducted by Chapin Hall to conduct improved PIT counts for youth, including a methodology for obtaining a census of doubled-up homeless youth. And the Consolidated Appropriations Act of 2016 appropriated $2 million toward a prevalence study that would help answer some of these questions.

Even though we are not currently counting doubled up youth in the PIT, we use more than the PIT count to assess the scope of the problem in our request for resources. We also take into account the Department of Education's data and the American Housing Survey. While the AHAR does not currently include annual estimates on unaccompanied homeless children and youth, HUD is in the process of improving and updating its annual data collection on this important population. These changes will be reflected over time in the next few years.

HUD is also partnering with the U.S. Interagency Council on Homelessness, the Department of Education, and the Department of Health and Human Services to articulate a collective vision of what it means to end youth homelessness. Rest assured that we are working together toward a vision that includes ending homelessness for doubled-up and couch-surfing homeless youth.

Mr. Quigley #8

LGBT Proposed Rule

As you know, LGBT people, particularly LGBT youth, suffer from a higher rate of housing instability and homelessness than the general population. Transgender Americans are the hardest hit, with one in five transgender Americans reporting experiencing homelessness.

On behalf of the Congressional LGBT Equality Caucus, I want to express our support for the rule proposed by your Department to address this issue. It is a crucial step forward, ensuring that transgender people seeking emergency housing and shelter are able to find the protection they need.

Question: How do you plan to implement the Proposed Rule?

Answer: Prior to the publication of the Equal Access in Accordance with an Individual's Gender Identity in Community Planning and Development, HUD published "Notice CPD-15-02: Appropriate Placement for Transgender Persons in Single-Sex Emergency Shelters and Other Facilities." While not required, this guidance clarified that HUD expected recipients and subrecipients to base placement decisions on the gender with which a person identifies, taking health and safety concerns into consideration and giving special weight to the transgender or gender nonconforming person's own personal health and safety concerns. It also provided best practices for providers. Many of these expectations were carried forward as requirements in the Proposed Rule. Thus, while HUD had not yet published a final rule, HUD began training providers on its expectations prior to the publication of the Proposed Rule.

Additionally, on March 4, 2016, HUD published a suite of resources for LGBT Individuals and Families and Service Providers. These resources included a guidebook for provider-level policies and procedures, a series of staff training scenarios, as well as a provider-level self-assessment tool. Taken together, these resources will help providers adopt requirements and best practices and determine whether they have done so successfully. Further, HUD intends to train its staff – both at Headquarters and local field offices as well as provide resources to HUD staff that can then be used to train Continuums of Care and recipients and subrecipients of HUD funds.

Finally, HUD operates the HUDExchange's Ask-A-Question portal, where providers and other stakeholders can seek clarification on requirements and best practices. HUD will continue to answer questions that are submitted to this portal.

Mr. Quigley #9

LGBT Proposed Rule

Question: What types of programs are you planning to use to help communities implement the rule?

Answer: HUD intends to use technical assistance materials, including guidebooks, power point presentations, training scenarios, and HUD-led training to help communities implement the rule. Additionally, the HUDExchange's Ask-A-Question portal will be available for communities to submit community specific questions for HUD to answer.

While a suite of training materials is already available, HUD will update these materials as necessary to reflect the requirements of the Final Rule.

Mr. Quigley #10

Family Homelessness

Family homelessness is a significant problem in Chicago, and as you know, a homeless shelter is no place to raise a child. The Administration's goal to end family homelessness by 2020 is an important one, and I applaud you for requesting $11 billion in mandatory funding to meet that it.

Question: Can you provide us with an update on how the Administration is working to achieve this goal for ending homelessness among families with children?

Answer: Answer: HUD works with many of our partners in the public and private sectors to make progress on our goal to achieve and sustain the goal of ending family homelessness by 2020. Every year, communities across the country participate in a Point-in-Time (PIT) count that estimates how many people experience homelessness on a single night during the last 10 days of January. Based on HUD's 2015 count, there were 206,286 people in 64,197 family households with children experiencing homelessness.

- Between 2010 and 2015, the number of people in families experiencing homelessness, estimated by the PIT count, has declined by almost 15 percent.
- Most people in families experiencing homelessness (90 percent) were sheltered in emergency shelters or transitional housing and PIT data indicates a 64 percent reduction in the number of families experiencing unsheltered homelessness between 2010 and 2015.

To accelerate progress, HUD has strengthened the annual process for applying for homeless assistance funds, making it more competitive and more supportive of best practices related to ending family homelessness. Recent research from HUD's Family Options Study has demonstrated that Housing Choice Vouchers and Rapid Re-Housing programs are the most cost effective solutions to family homelessness. HUD's budget request is guided by this research. As a down payment, it includes discretionary requests of $24 million to provide rapid re-housing to 8,000 new families, and $88 million to provide housing choice vouchers coordinated with communities' homeless assistance programs. The budget includes a mandatory request of $11 billion for Homeless Assistance for Families that would provide enough rapid re-housing and housing choice voucher assistance to fully reach the goal of ending homelessness by 2020. HUD also provides incentives for communities to redirect their federal resources to rapid re-housing and other permanent housing programs and encourages Public Housing Agencies (PHAs) across the country to target more housing choice vouchers to families experiencing homelessness.

Additionally, several federal agencies, including HUD, the U.S. Interagency Council on Homelessness, the Departments of Health and Human Services (HHS), Labor, Education, and others work jointly to coordinate resources, linking school and early childhood programs to homeless assistance programs. HUD's $11 billion family homelessness proposal complements HHS's new Emergency Aid and Service Connection initiative.

Mr. Quigley #11

Federal Flood Risk Management Standard

Under President Obama's Executive Order 13690, agencies must choose amongst three options to delineate the floodplain for federally-funded construction projects. In the current Unified Agenda released in the Fall, HUD described a forthcoming proposed rulemaking to implement the Executive Order, stating new construction or substantial improvement in a floodplain must be elevated or flood proofed 2 to 3 feet above the 100 year floodplain.

Question: Does this mean that HUD plans to use the free board approach to implement the Executive Order?

Answer: HUD currently plans to use the freeboard approach, while allowing state and local governments to elevate higher where state or local code requires. HUD will perform an open and public rulemaking to implement the standard. The rulemaking will include a public comment process.

Mr. Quigley #12

Federal Flood Risk Management Standard

Question: If HUD is using the free-board approach, please explain how HUD will determine the horizontal expansion?

Answer: HUD is currently working with our federal partners to discern the best way to determine horizontal expansion and will incorporate those proposed policies for public comment.

Mr. Quigley #13

Federal Flood Risk Management Standard

Question: If builders and developers are constructing a project with federal funds, how will they comply with the freeboard value approach to ensure their projects are resilient to future flooding?

Answer: As part of the environmental review process that occurs prior to final project approval and the signing of construction contracts, HUD, or states and communities using HUD funds, will continue to perform floodplain compliance reviews to determine the freeboard needed. Builders do not perform these reviews and are not legally allowed to perform the floodplain analysis under Executive Order (E.O.) 11988. Under HUD's planned implementation of E.O. 13690, the process would be very similar to the current requirement, except that in cases where elevation would be required under current regulations, E.O. 13690 now requires an additional two feet for non-critical actions to account for uncertainty in future flood levels and to protect lives and federal investment. That is, E.O. 13690 requires the top of the floor to be elevated two feet above the base flood elevation, whereas current regulations require the elevation to be equal to the base flood elevation. E.O. 13690 requires three feet of elevation for critical actions (such as nursing homes and hospitals); HUD does not anticipate many its funds being used for critical actions in floodplains.

Builders and developers have to follow numerous HUD environmental standards to ensure that HUD assisted buildings are safe and decent. HUD currently has standards for structure exposure to toxic hazards, noise, and separation distance from explosive materials. Like this flood standard, these requirements are qualitative efforts to keep families safe and federal tax dollars protected.

Mr. Quigley #14

Federal Flood Risk Management Standard

Question: What is HUD's estimated cost to comply with the FFRMS? What are HUD's estimated benefits to comply with the FFRMS?

Answer: HUD has not finalized its economic analysis, but current preliminary estimates show that benefits exceed costs. As sea level rise continues, these benefits will continue to increase as well. The preliminary estimates show substantial benefits due to savings on flood insurance premiums. Benefits will also be accrued due to decreased flood damage and fewer displaced tenants and workers. A lack of a home and job is a level of uncertainty and stress that can cause severe trauma for families.

FEMA's current maps, used for both flood insurance and floodplain management, are only based on the data available at the time of mapping. An analogy to this is driving by only using the rearview mirror. By incorporating a larger margin of error/uncertainty, the new elevation standard is an effort to alleviate the National Flood Insurance Program's current inability to address climate trends and population growth in a measured and common sense way.

In the last couple of years, the world has experienced alarming and record setting weather events and natural disasters. Typhoon Haiyan, Hurricane Patricia, and Cyclone Winston have all set records for storms in the last three years. Meanwhile, in the United States, in just the last 6 months, rain events in northern Louisiana and South Carolina have brought record floods that surpassed previous risk estimates. It is becoming clear that a failure to account for increased risk will have greater costs than this practical freeboard standard.

Mr. Quigley #15

Federal Flood Risk Management Standard

Question: What does HUD estimate the new floodplain regulations will cost grantees and borrowers that use HUD funds to build apartments?

Answer: HUD is finalizing estimates, but the costs should be similar to those of the four states and over 350 communities that already require two feet of freeboard within the 100-year floodplain. The states are Indiana, Montana, New York, and Wisconsin. Preliminary estimates from these states show that benefits from these changes have outweighed the costs. HUD's preliminary economic analysis shows savings even without considering sea-level rise, which is occurring and is documented. As a result, the benefits are even greater when considering accelerated sea-level rise scenarios.

U.S. Department of Housing and Urban Development
Fiscal Year 2017 Questions for the Record
Congressman Tim Ryan
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Ryan #1

HUD Resources for Lead Poisoning in Paint and Water

As you are aware, the communities of Flint, Michigan and Sebring, Ohio are experiencing issues with lead in the water supply, as well as the ongoing issues of continued lead-based paint hazards in the many housing units in my district. In 2012, 11,332 of the children tested in Ohio had an elevated blood lead level, which is five or more micrograms of lead per deciliter of blood. I have been hearing from many of my constituents who are concerned with the ongoing dangers of lead in their homes and water.

Question: Can you please elaborate on the programs that HUD offers to help lead-paint removal? Please outline the steps communities can take to help families eliminate lead pipes and other resources available through HUD to help with lead poisoning developed through water?

Answer: Each fiscal year, HUD awards lead hazard control grants to cities, counties and states, so that these governments can identify and control lead-based paint hazards in eligible privately-owned pre-1978 housing for low-income renters or owner-occupants. (Housing was permitted to be painted with lead-containing paint before 1978.) Per statute, these funds can only go to the removal of lead paint hazards and not to replacing pipes that may contain lead. These programs are publicized through notices of funding availability, which are announced in HUD press releases, postings on HUD's grants website and the federal Grants.gov website, and through a Federal Register notice. The most recent notices, made public on March 18, 2016, make $88 million available for the control of lead-based paint hazards, and an additional $13 million for control of other housing-related health and safety hazards in homes being treated for lead-based paint hazards. Through these programs, over 190,000 homes have been made lead-safe. In the event that lead is identified in water, and grantees determined that kitchen or bathroom fixtures contain lead, they may replace those fixtures, but replacement of lead pipes throughout the home or in the supply line from the community water main to the home is not within the scope of grant activities.

While these grants are, by statute, focused on unassisted housing and housing in the HCV program, HUD-assisted pre-1978 housing is covered by a companion approach, HUD's Lead Safe Housing Rule (24 CFR 35, subparts B – R). This Rule requires that the assistance agreement (by whatever name, e.g., agreement, contract, grant, etc.) incorporate requirements for the evaluation and control of lead-based paint hazards. As provided by the authorizing legislation for the Rule, the Residential Lead-Based Paint Hazard Reduction Act of 1992 (P.L. 102-550) ("Title X"), the type of evaluation and control depends on the type of assistance and in some cases, the amount of assistance and/or the type of occupants (e.g., children under age 6).

Regarding the steps communities can take to help families eliminate lead pipes, communities that are recipients of the Community Development Block Grant (CDBG) Program funds (i.e., individual CDBG entitlement communities, or non-entitlement communities funded by HUD-administered or State-administered CDBG programs) may pay the costs of connection of residential structures to water distribution lines or local sewer collection lines when it is done as part of the rehabilitation of the property (24 CFR 570.202(b)(6)). These communities have considerable discretion in how they prioritize the use of the funds, describing their intended uses of the funds in their five-year Consolidated Plan, which describes needs, resources, priorities and proposed activities to be undertaken with respect to the CDBG and other HUD programs, and the annual action plans that indicate how they intend to implement their Consolidated Plan for each year of the block grant.

WEDNESDAY, MARCH 2, 2016.

FEDERAL AVIATION ADMINISTRATION

WITNESS

MICHAEL HUERTA, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION

Mr. DIAZ-BALART. The subcommittee will now come to order. Today, we welcome Administrator Michael Huerta from the Federal Aviation Administration to discuss the fiscal year 2017 budget request. Administrator Huerta, we appreciate your flexibility today and your willingness to be here. We originally had you scheduled as part of a panel with the Federal Railroad Administration, but we had a last-minute schedule change and now we can dedicate this hearing to the FAA. I know you are really happy about the fact that we are only going to be focusing on you today. Members, we will try to schedule the FRA for a later date. Again, Administrator Huerta, this is your fifth appearance before this committee. We thank you for your distinguished record of service, and we always look forward to your testimony as we, again, we do today.

FAA is requesting $15.9 billion in new budgetary resources for fiscal year 2017, a reduction of $381 million below last year's level. This reduction, however, is mostly due to a request to reduce the airport grant program by $450 million, along with an increase to passenger fees. Now, I don't have to tell you all, this type of proposal has been proposed and rejected a number of different times. Putting aside this, frankly, what is an artificial cut, we see an increase in the operations account of $85 million, a cut to facilities and equipment of $17 million, and a $1.5 million increase to the research budget.

We are looking forward to working with you to ensure that the FAA's resources are put to work for the benefit of the flying public, obviously, while being good stewards to the taxpayer money. I don't have to tell you that we face some challenges, whether it is advancing NextGen, ensuring the right staffing levels to our air traffic control facilities, and integrating the UAS into our airspace. Together, we must meet these challenges while protecting the FAA's safety mission as the first and the number one priority. We have the safest and yet the most complex airspace in the world, and we want to work with you, sir, to ensure that you continue to meet that mission. Now, before we get to your opening statement, I want to recognize our ranking member of this committee, the subcommittee, the gentleman from North Carolina, Mr. Price, for his opening statements. Mr. Price, good to have you here, sir.

Mr. PRICE. Thank you, Mr. Chairman. Administrator, it is good to have you again before this committee. I look forward to your testimony. As the Chairman has said, the FAA budget proposed requests $15.9 billion in budgetary resources; that is a $400 million decrease from last year's enacted level. The request, I believe, would provide sufficient resources to staff the air traffic organization and provide the resources needed to modernize our airspace and improve safety.

Now, when it comes to airport improvements, the request includes a proposal to allow large airports to fund these improvements through an increase in the passenger facility charge. Small and medium airports would still receive funding through the AIP program. So this is responsible for the decrease in overall funding and, of course, the probabilities of these fees happening will have to be considered as we do our work.

As you know, I have concerns about the proposed FAA reauthorization proposal put forward by the Transportation and Infrastructure Committee, and particular concerns about separating air traffic and air safety functions at the FAA, and I look forward to discussing these issues today; I am sure others will as well.

I would also like to hear more about the NextGen program, how it is going, how its promises to improve the safety and efficiency of our nation's airspace, indeed, in some instances, is already doing so. Your budgetary request includes $877 million for NextGen capital investments; that is an increase of $22 million over the fiscal year 2016 enacted level. While we build the air traffic control system of the future, we have got to maintain legacy systems in a state of good repair. Many facilities are decades old, but they are still critical to the operation and safety of the system, so we will need to learn how the FAA is improving safety and efficiency through the research of new technologies, what our priorities for investment are.

The current authorization for the FAA expires at the end of March. It is clear that short-term extensions don't provide the certainty needed to make long-term improvements in the system. So I am hopeful that while we work out a long-term authorization bill that we can all support, we provide the FAA with an extension that gives the airports, airlines, our workforce, and the traveling public the certainty they need to move forward. I look forward to your testimony. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, sir. Mr. Huerta, your full written testimony will, obviously, be included, will be included in the record and, now, again, thanking you for being here, you have 5 minutes.

Mr. HUERTA. Thank you, Mr. Chairman. Good afternoon, Chairman Diaz-Balart, Ranking Member Price, and members of the subcommittee, and thank you for the opportunity to discuss the fiscal year 2017 budget request for the Federal Aviation Administration. The FAA's 2017 budget request is for $15.9 billion to support the FAA's mission to run the safest and most efficient airspace system in the world, while continuing to transform our airspace through NextGen. These budget priorities are important to us, and they also play a larger role in the long-term health of our nation's economy. We continue to make strides deploying key elements of the NextGen air traffic system, while also welcoming new users into our nation's airspace. NextGen is no longer some nebulous and futuristic aspiration; it is happening today.

When I spoke to you last year, I told you we were almost finished with the installation of our En Route Automation Modernization System, or ERAM. It is now complete and is delivering promised results as the backbone of our NextGen technology transformation. Similarly, the ground infrastructure for ADS–B is finished, and ADS–B traffic and weather broadcasts are now available across the country. As we complete this foundation, our engagement with industry is yielding real benefits.

Last week, the NextGen Advisory Committee and the FAA met in Atlanta to discuss our accomplishments and to outline next steps. We have made significant progress in four NextGen priority areas, including Performance Based Navigation and DataComm. We are replacing old flight paths with more efficient satellite-based procedures, and DataComm technology is giving pilots and controllers a new and more efficient way to communicate critical safety information.

For the Operations budget, the FAA is requesting $10 billion in 2017 for day-to-day operations of our nation's aviation system. This represents a 1 percent increase above the fiscal year 2016 enacted level, and includes the cost for providing safe, secure, and cost-effective air traffic services to commercial and to private aviation. This budget will strengthen our safety and security programs, hiring 16 new safety-critical staff for the integration of unmanned aircraft systems, or UAS. We will also hire 13 new personnel in our Office of Commercial Space Transportation to support regulatory, safety, and airspace integration efforts. We boosted funding to improve the security of our most critical NAS facilities and protect the FAA from malicious insider activity.

For Facilities and Equipment, or F&E, the 2017 request of $2.8 billion maintains the capacity and safety of our nation's airspace, while we continue to modernize and to transform it. The non-NextGen portion of our investment representing almost $2 billion will be to sustain current systems. This funding will be a down payment on our maintenance backlog, keeping systems operational and our employees safe. Further reducing the backlog will require continued commitment for several years.

Our Research, Engineering, and Development request of $167.5 million allows us to boost funding for the Continous Low Energy Emission and Noise, or CLEEN, program to support the president's plan to reduce carbon dioxide emissions by 32 percent from 2005 levels by 2030. It also includes $8.4 million to meet the growing demand for unmanned aircraft systems. Our Airports budget request, as you noted, is for $2.9 billion. This reflects our ongoing priority of focusing federal resources on projects of highest priority and greatest benefit to aviation at the smaller commercial and general aviation airports. At the same time, the budget would allow commercial service airports to increase non-Federal Passenger Facility Charges from the current maximum of $4.50 to $8.00. The PFC level has not been increased in more than 15 years, and our analysis shows that, due to inflation, this higher PFC level is needed just to provide an equivalent level of buying power. That means that large hub airports will benefit from more direct and more local control over their funding and over their improvements.

Before we turn to questions, I would like to take a moment to address the upcoming debate over FAA reauthorization. Last month, as you all know, the House Transportation and Infrastructure Committee unveiled a proposal for how air traffic control services could be provided in the future. We are open to having this discussion, and we encourage Congress to work in a bipartisan way on FAA reauthorization, consistent with recent approaches on other transportation issues. Civil aviation contributes $1.5 trillion annually to the national economy and constitutes 5.4 percent of the gross domestic product. It also generates 12 million American jobs. We share an enormous responsibility to protect this mode of travel and to shape and nurture its bright future. Thank you. This concludes my opening statement. I would be happy to answer your questions.

[The information follows:]

STATEMENT OF
MICHAEL P. HUERTA, ADMINISTRATOR
FEDERAL AVIATION ADMINISTRATION

HEARING BEFORE THE COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES: THE FISCAL YEAR 2017 BUDGET REQUEST FOR THE FEDERAL AVIATION ADMINISTRATION

MARCH 2, 2016

Good morning, Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee. Thank you for the opportunity to discuss the Administration's Fiscal Year (FY) 2017 budget request for the Federal Aviation Administration (FAA).

The Federal Aviation Administration operates the safest and most complex aerospace system in the world. We have proudly delivered on this promise since 1958, providing the world's leading aviation system and setting an unparalleled standard for safety and efficiency that is emulated globally.

Maintaining our leadership position means we have to always think about doing our work smarter and more effectively. For the FAA, this means focusing on four strategic initiatives: making aviation safer and smarter; delivering benefits through technology and infrastructure; enhancing global leadership; and empowering and innovating with the FAA's people.

Our strategic initiatives serve as the framework for transforming the FAA and the aerospace system. By focusing on risk-based decision making, we will build on safety management principles to proactively address emerging safety risks at a system level. We are laying the foundation for the National Airspace System (NAS) of the future by achieving prioritized Next Generation Air Transportation System (NextGen) benefits, integrating new user entrants, and delivering more efficient, streamlined services. We will improve safety, efficiency, and environment sustainability across the globe through an approach that shapes global standards, enhances collaboration and better targets FAA resources. And lastly, we are preparing for the future by identifying, recruiting and training a workforce with the leadership, technical and functional skills to ensure the United States has the safest and most productive aviation sector.

While these strategic initiatives are important to us, they also play a large role in the long-term health of our nation's economy, which is highly dependent on the aviation industry. Civil aviation contributes roughly $1.5 trillion annually to the national economy and constitutes 5.4 percent of the gross domestic product. Aviation also generates 12 million jobs, with annual earnings of $459 billion. Aviation has become the international language of commerce, and runways have enabled inland cities to become vibrant ports. It has helped foster an intellectual and economic prosperity that is unparalleled in human history. As the stewards of this remarkable industry, we share an enormous responsibility to protect this mode of travel and to shape and nurture its bright future. At the FAA, we take this responsibility very seriously.

Ten years ago we embarked on our ambitious transformation program while supporting an already aging legacy infrastructure. The FAA began the process of reinventing the NAS, replacing legacy tools, procedures, capabilities and technologies to more efficiently and safely move air traffic using modern systems and methods.

Over the intervening years and given the tight funding environments, FAA has refocused our efforts on achieving some near-term NextGen benefits while delaying others, and making targeted investments to extend the lifecycle of certain systems and equipment. We deferred maintenance on other existing infrastructure, causing the maintenance backlog to grow.

Despite these challenges, the FAA has proven that we can deliver. We have completed the foundations of NextGen and we are already building on our achievement by delivering near-term NextGen benefits to our users. We are working in partnership with industry stakeholders through the NextGen Advisory Committee (NAC), and this collaborative process is driving the prioritization of NextGen benefits. We have completed 99 percent of our established milestones. We are on target to continue meeting our commitments to deliver the next wave of benefits from the systems, technologies and procedures that will provide enhanced levels of safety and tangible efficiencies for the traveling public.

The increased F&E funding provided in FY 2016 is having a meaningful impact on our ability to deliver these benefits and restore our infrastructure. We are continuing to fund the renovation of facilities that have not been modernized in 50 years, replacing obsolete plant equipment that provides environmental controls for employees and NAS equipment, replacing and upgrading power systems and the fuel sources that supply them, and remediating asbestos, mold, and fire risks to employees. The FAA's FY 2017 budget request will continue the funding levels necessary to make broad investments in our infrastructure while realizing benefits of NextGen. The NextGen investments will reduce delays, expand air traffic system capacity, and mitigate aviation's impact on the environment, while ensuring the highest levels of safety.

The needs of the NAS and the aviation community it serves continue to evolve. New users such as Unmanned Aircraft Systems (UAS) and commercial space vehicles are entering our nation's airspace with increasing frequency. As we build the NAS of the future, we must ensure that it can accommodate these new entrants. This is also causing us to think critically about what parts of our existing infrastructure need to be sustained. With the introduction of satellite-based surveillance and other technologies, we are evaluating the elements of NAS infrastructure that will need to be maintained.

The FAA's total FY 2017 budget request of $15.9 billion will support our ongoing mission and a continued, but measured, transition to the future while honoring the spending limits enacted in the Bipartisan Budget Act of 2015. This budget request supports today's infrastructure and allows us to continue deploying key NextGen benefits to our stakeholders. It supports our critical safety programs while allowing the FAA to safely integrate new entrants such as UAS and increasing numbers of commercial space launches into the NAS. The proposal will increase capital investments while decreasing the FAA's overall budget by reshaping the airport financing system. This transformation provides for increased investment in airport infrastructure. It concentrates federal grant dollars on airports that need it most, while empowering larger airports with increased funding and local control.

Last month, the House Transportation & Infrastructure Committee unveiled a proposal for how air traffic control services could be provided in the future. We acknowledge the hard work the Committee put in to developing a plan to restructure the FAA, and are open to having this discussion. There is broad agreement that there are opportunities through FAA reauthorization to ensure that the U.S. continues to lead the world in aviation safety and efficiency. We encourage Congress to work in a bipartisan way on FAA reauthorization, consistent with recent approaches on other transportation issues. FAA reauthorization will impact a broad and diverse array of stakeholders, and we want to make sure they are all heard throughout this process.

We continue to believe that any proposal should support our core reauthorization principles. These principles include maintaining the safest aerospace system in the world, modernizing the FAA's air traffic control system, and enabling the integration of new users into the NAS. Other principles include allowing better alignment of resources with the needs of the NAS and securing appropriate funding for the nation's airports. These principles are intended to guide reauthorization to improve safety, make the NAS more efficient, and improve service for air travelers and other stakeholders.

In light of the important debate to come, the FAA's FY 2017 budget request maintains current law while proposing an important modification. The FAA requests additional budget transfer flexibility. When the FY 2013 sequestration forced the FAA to implement employee furloughs that resulted in air traffic delays, Congress needed to enact special legislation granting the budget flexibility required to minimize the disruption to the airspace system. This new authority requested in the budget would allow the FAA to request to reprogram up to 10 percent between appropriations, provided that no account is increased by more than 10 percent. Such a transfer would be subject to approval by both Congressional Committees on Appropriations.

In times of constrained budgets, we need to prioritize our responsibilities to focus our resources on ensuring the safety and efficiency of the existing aviation system. We must deliver new technology and capabilities, and respond nimbly to evolving challenges such as new external cyber security threats. We cannot risk being left behind as the aerospace industry becomes more complex, diverse, and globalized.

NextGen

NextGen is arguably the most ambitious project we have embarked on since the days when our system of airways was initially established. NextGen is an all-encompassing transformation of the world's largest and most complex air traffic control system. The FAA has embraced this commitment with energy and with enthusiasm. NextGen is no longer some nebulous and futuristic aspiration. It is happening today.

We have successfully implemented the foundation of NextGen, which can be seen in our en route centers, where tens of thousands of high-altitude flights are coordinated every day. Last year, we completed deployment of the En Route Automation Modernization system, or ERAM, in all of our centers in the continental United States. ERAM is the backbone of our NexGen transformation. It is a faster computer platform that replaces our legacy system, which had its roots in the 1960s. ERAM provides a much bigger, richer picture of our nation's air traffic and allows controllers to better manage flights from gate to gate.

The benefits of ERAM cannot be understated. This powerful computer system can enable many of our other critical NextGen technologies as they come online. For instance, ERAM links seamlessly with Automatic Dependent Surveillance-Broadcast (ADS-B). ADS-B is the core technology that moves us from a radar-based air traffic system to a satellite-based system. Last year, we completed our coast to coast installation of 634 ground transceivers that comprise the ADS-B network. ADS-B is now integrated at all of our en route centers, allowing controllers to instantaneously capture the exact GPS location, speed and altitude of a growing number of aircraft equipped with this latest technology. All over the country, our controllers are monitoring measurable increases of aircraft equipped with ADS-B in advance of the 2020 deadline. ADS-B also brings free weather and traffic updates to the cockpit, allowing pilots to make more informed decisions.

Even as we build the foundation for the future, we are already delivering powerful NextGen benefits today. Our Metroplex initiative has transformed the airspace around some of our busiest cities, replacing inefficient ground-based routes. We now have scores of new satellite-based air traffic procedures in Houston, North Texas, Washington, DC metro and Northern California. In 2017, we will complete Metroplexes in Cleveland-Detroit, Phoenix and Southern California. We will also design a regional network of high altitude PBN routes on the eastern seaboard.

In fact, we now have more satellite-based procedures in our skies nationwide than radar-based procedures. In sheer numbers, we have developed over 7,000 satellite based procedures that have already resulted in millions of dollars in fuel savings for the airlines, with corresponding reductions in emissions of greenhouse gases.

Now is the time to build on what we have already achieved. Continued collaboration with all stakeholders, including the aviation industry, our union members, and Congress, is key to our success. We continue to work in partnership with industry stakeholders through the NextGen Advisory Committee (NAC). The FAA and the NAC reached agreement on a joint implementation plan consisting of capabilities within four focus areas: Data Communications, surface operations, multiple runway operations, and Performance Based Navigation. Our FY 2017 budget supports this shared vision by focusing funding on the four areas that will achieve the maximum benefits in the next fiscal year, leveraging equipment that operators have already invested in for other capabilities.

The FY 2017 budget includes $1 billion for NextGen, of which $877 million is in the Facilities and Equipment account, $63 million is in the Research program, and $60 million is in Operations. This investment portfolio represents an increase of $20 million over FY 2016 enacted levels. The majority of this $20 million increase is in the F&E account, allowing us to advance the Data Communications, Terminal Flight Data Manager, Time Based Flow Management, and NextGen Weather Processor programs.

Data Communications (Data Comm) streamlines communications between air traffic controllers and pilots, allowing them to transmit flight plans and other essential messages with the touch of a button instead of multiple verbal communications. This switch from voice to text enhances airspace capacity, reduces flight delays, and enhances safety by reducing the chance of a read-back error while relaying information. It also helps aircraft fly more direct routes, which saves time and fuel while reducing aviation's impact on the environment. Data Comm is already delivering great results in Newark, Memphis, Salt Lake City, and Houston, and we have just recently gone live in Austin and New Orleans. By the end of 2016, Data Comm will be used in more than 50 of our air traffic control towers, and we expect Data Comm to be in our large en route centers starting in 2019. Data Comm is just one example of the FAA's larger shift toward eliminating risk in our aviation system.

Another significant gain in efficiency will come from Terminal Flight Data Manager. A key component of this is the transition from paper flight strips to electronic flight data. This will improve airport sequencing and scheduling, as well as the exchange of flight data across our various air traffic jurisdictions. FY 2017 funding will allow us to design and develop the system, as well as deploy new technology at 24 of 39 sites.

Time Based Flow Management (TBFM) is already making a difference in the en route centers, with supporting equipment in most major TRACONS and the airports served by those centers. TBFM maximizes capacity by getting the right aircraft to the right runway, in the right order at the right time. Analyzing flights from hundreds of miles away, TBFM calculates scheduled arrival times to reduce low altitude delays and holding. This improves the flow of arrival traffic by efficiently using available capacity, saving fuel and reducing emissions.

NextGen Weather Processor will functionally replace existing weather processor systems and host new capabilities that better meet real time needs. The program achieved a Final Investment Decision last March, awarded its prime contract in April, and is now working to complete Critical Design Review in FY 2017.

These new tools will enable our air traffic controllers to guide planes more safely and efficiently through congested airways and around dangerous weather. This means that everyone enjoys the benefit of more reliable, predictable airline schedules. We are very proud of our progress in making NextGen a reality. We will continue to work closely with industry to implement new technologies and procedures that are sustainable. And we will work with other nations to establish a new global standard.

NextGen technologies offer our nation a worthy opportunity for investment in safety and innovation. NextGen technologies ensure aviation's continued viability, and will produce lasting economic benefits far beyond the cost of our investment. Our nation and airline industry are already yielding measurable financial returns that will bolster America's continued economic stability and growth.

Operations

The FY 2017 request of $10.0 billion for Operations represents a 1 percent increase above the FY 2016 enacted level. The requested funding includes $113 million for pay increases consistent with government-wide inflationary factors, as well as other non-pay inflationary costs and base adjustments. The base adjustments include $37.3 million to fund support costs for systems transitioning from Facilities and Equipment. These include System-Wide Information Management (SWIM) Segment 2A, System Approach for Safety Oversight (SASO), Integrated Display System Replacement (IDSR), Runway Status Lights (RWSL) and other various programs.

The budget also requests $15.3 million of program increases to support the safe integration of unmanned aircraft and commercial space transportation into the NAS, to implement security recommendations for critical operational facilities, and fund 147 new FTE in the safety and security program areas.

For the Aviation Safety Office (AVS), an increase of $2.9 million will provide for sixteen new safety inspectors, engineers, and safety critical staff for the integration of Unmanned Aircraft Systems (UAS). The budget also requests $250 thousand for Policy, International Affairs, and Environment (APL) to develop in-house capability to generate a forecast of future UAS activity. For the Office of Commercial Space Transportation (AST), the budget includes an additional $723 thousand for thirteen new personnel to support regulatory, safety, and airspace integration for this rapidly growing industry without curtailing innovation.

The Office of Security and Hazardous Materials Safety (ASH) request includes $1.7 million increase to reevaluate and improve the security of our most critical NAS facilities and to implementing new personnel investigative standards. The request also includes $1.8 million to support our capability to protect the FAA from malicious insider activity. These activities are the result of the comprehensive security review conducted after the Chicago Air Route Traffic Control Center fire incident on September 26, 2014. These reviews have resulted in numerous recommendations aimed at preventing similar events and improving our ability to sustain on-going operations if they do occur. We will continue making these changes over the next several years to minimize the risk of such events in our operation and our facilities. Given the need to improve the FAA's cybersecurity detection, response, and recovery capabilities, this budget requests $4 million and two new FTEs in the Office of Finance and Management (AFN) to address this growing area of critical need.

Cost savings initiatives will reduce the Operations budget request for FY 2017 by $46.9 million. The request includes $2.8 million to support the Lean Maintenance and Revalidation Program (LMRP). LMRP analyzes cost and performance data, maintenance activities, and sustainment and support requirements, and from this, identifies cost savings/avoidance opportunities. The FAA anticipates this activity could yield $6.5 million in cost savings. In addition, the FAA will achieve administrative efficiencies of $40 million through cost reductions and avoidance in various areas such as contractual services and supplies.

Facilities and Equipment (F&E)

The FY 2017 budget request includes $2.8 billion for Facilities & Equipment. This request includes funding for critical system and facility infrastructure, and provides for the near-term priorities that were identified working in cooperation with the NextGen Advisory Committee. In recent years, sequestration, government shutdowns, short-term reauthorization extensions, and declining budget levels forced the FAA to reduce or defer capital investment. The agency had to choose between sustaining current infrastructure and keeping NextGen progress on track. As we work with our industry partners to usher in the aviation into the future, it is vital that we inspire confidence in the FAA's ability to deliver on investments. In developing the FY 2017 budget, we have focused on those items which will inspire industry confidence, garner the associated industry investments that make NextGen viable, and provide near term benefits to users.

Approximately $1.9 billion of this request keeps the current airspace infrastructure maintained and operational. Notably, this provides $464 million, a $4 million increase over FY 2016 enacted levels, for facility-related maintenance. After years of underinvestment in sustainment, this funding is a down payment on our maintenance backlog, helping assure that systems remain operational and that our employees are safe. Further reducing our backlog will require continued sustained support over several years, complemented by divestiture and decommissioning of infrastructure where feasible.

Additionally, the FY 2017 request proposes initial funding for Next Generation Surveillance and Weather Radar Capability and Back-up Surveillance Capability. This program will replace NAS radars that are twenty to forty years of age. New systems are necessary to both reduce operations and maintenance costs and to incorporate new technology that detects and tracks UAS and other non-cooperative aircraft.

The integration of both UAS and commercial space transportation into the NAS requires additional resources to address emerging and expanding responsibilities in these areas and develop policies and procedures that support their integration into the NAS. $9 million is requested for UAS under the Separation Management Portfolio to ensure the unique operational implications are well understood and necessary infrastructure changes are implemented to allow UAS integration into the NAS. $2 million is included under the Air Traffic Management budget line item for commercial space integration into the NAS and that will allow commercial space launches and reentries to occur without significant disruptions to both space and air operators.

Research, Engineering and Development (RE&D)

The FY 2017 Research, Engineering & Development budget request of $167.5 million is a $1.5 million increase over the FY 2016 enacted level. This allows us to increase funding for Continuous Low Energy, Emission and Noise (CLEEN) to support the President's Climate Change Action Plan. Commercial space transportation research is increased by almost $1.0 million, and $1.0 million is requested for NextGen information security research. NextGen Information Security is a new budget item for FY 2017 that supports research to help prevent disruptive cyber incidents that may affect the Air Traffic Control mission. This research will be performed in coordination with the FAA Cyber Security Steering Committee.

The RE&D NextGen portfolio of $62.6 million supports NextGen-specific research in wake turbulence, human factors, clean aircraft technologies, unmanned aircraft systems and information security. The $5.8 million requested for our NextGen Alternative Fuels for General Aviation program supports the transition from the current aviation 100 low lead fuel to an unleaded replacement fuel that will have the least impact on the general aviation fleet. The NextGen Environmental Research request of $26.2 million supports a range of activities, including research to mature certifiable clean and quiet aircraft technologies, the development of sustainable fuels, and the CLEEN program.

The FAA's RE&D request continues to support the safe integration of UAS technologies into the NAS, requesting $8.4 million to conduct research on UAS technologies. The program is focused on sense and avoid and command and control requirements that will support the safe integration of UAS in the NAS within the 14 Code of Federal Regulations regulatory framework.

Airport Improvement Program (AIP)

Airports remain a critical part of the aviation system infrastructure. The FAA's FY 2017 request provides the funding needed to ensure safety, capacity, and efficiency at our nation's airports through a combination of grant funding and revenue generated through Passenger Facility Charges (PFCs). Our $2.9 billion request for Grants-in-Aid for Airports is $450 million (13.4 percent) below FY 2016. This funding level will support our continued focus on safety-related development projects, including runway safety area improvements, runway incursion reduction, aviation safety management, and improving infrastructure conditions.

The FY 2017 budget request proposes to eliminate passenger and cargo entitlement funding for large hub airports. At the same time, the budget would allow commercial service airports to increase non-Federal Passenger Facility Charges (PFC) from the current maximum of $4.50 to $8. The PFC level has not been increased in more than 15 years. Our analysis shows that, due to inflation, this higher PFC level is needed just to provide an equivalent amount of buying power from 15 years ago. If all eligible airports were to increase PFC collections to $8, they could generate an additional $2.3 billion for airport projects. This means that large hub airports will enjoy the benefit of more direct and local control over their funding, while managing their own improvements.

The FAA requests $107.7 million for Personnel & Related Expenses, an increase of $591 thousand from the FY 2016 enacted level. The request also provides $31.3 million for Airport Technology Research, an increase of 1.2 percent from FY 2016. The additional funding will continue to support enhanced safety and pavement research efforts as well as increased studies for noise abatement and environment impacts. The budget continues to provide $15 million for the Airport Cooperative Research program.

Conclusion

Aviation enables the economic benefits of tourism, shipping and travel for business or pleasure. The FAA's FY 2017 budget request enables us to continue to protect and expand this vital economic engine, while moving forward with our transformation and fulfilling our mission of providing the safest and most efficient aerospace system in the world.

In today's world of global competition, America has a clear opportunity to invest now in our future as we prepare our world class aviation system to meet increasing demands. Aviation as a growth industry is worthy of that investment, representing a cornerstone of our country's economy that accounts for more than 5 percent of our nation's gross domestic product. The FAA will continue to deliver on the promise of tomorrow, and we are grateful that Congress continues to recognize our ongoing mission of safety and modernization as a national priority.

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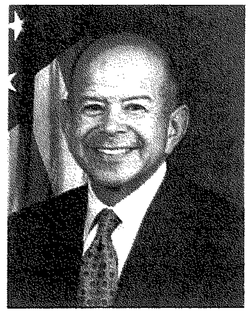
Federal Aviation Administration

Michael P. Huerta
Administrator



Michael P. Huerta is the Administrator of the Federal Aviation Administration. He was sworn-in to office on January 7, 2013 for a five year term.

Huerta is responsible for the safety and efficiency of the largest aerospace system in the world. He oversees a $15.9 billion dollar budget, over 47,000 employees and is focused on ensuring the agency and its employees are the best prepared and trained professionals to meet the growing demands and requirements of the industry. Huerta also oversees the FAA's multi-billion dollar NextGen air traffic control modernization program as the United States shifts from ground-based radar to state-of-the-art satellite technology.

Huerta was confirmed by the U.S. Senate as the FAA's Deputy Administrator on June 23, 2010. On January 1, 2013 the United States Senate unanimously confirmed President Obama's nomination of Huerta for a 5-year term as FAA Administrator.

Huerta is an experienced transportation official who has held key positions across the country. His reputation for managing complex transportation challenges led him to the international stage when Huerta was tapped as a Managing Director of the 2002 Olympic Winter Games. The Olympics drew 2,400 athletes from 78 countries to Salt Lake City. Huerta was critical in the planning and construction of a variety of Olympic transportation facilities, as well as the development of a highly successful travel demand management system that insured the transportation system operated safely and efficiently.

Before joining the FAA, Huerta held senior positions at Affiliated Computer Services from 2002-2009 rising to the position of President of the Transportation Solutions Group; ACS is now a Xerox company specializing in business processes and information technology.

Huerta was commissioner of New York City's Department of Ports, International Trade and Commerce from 1986-89. He then served as the Executive Director of the Port of San Francisco from 1989-1993. From 1993-98, he held senior positions in the U.S. Transportation Department in Washington, D.C., serving under Secretary Federico Pena and Secretary Rodney E. Slater.

He holds a bachelor's degree in political science from the University of California-Riverside and a master's in public affairs, with a concentration in international relations from the Woodrow Wilson School of Public and International Affairs at Princeton University.

Mr. DIAZ-BALART. Again, thank you very much for your statement. Members, we are going to proceed as we have before, in standard 5-minute rounds, alternating sides, recognizing members in order of seniority as they were seated at the beginning of the hearing. So, as I have asked you before, and by the way, you have been exceedingly cooperative, please be mindful of your time and allow the Administrator time to answer within your 5 minutes. Administrator, I am proud that, due to the bipartisan budget agreement, we were able to fund FAA's NextGen programs and nearly $980 billion for fiscal year 2016. Your budget request includes $1 billion for NextGen, which is a $20 million increase, as we have said. The modernization of airspace is obviously a difficult, complex task, and we are eager to see the FAA deliver on the promise of NextGen, and we have been eager for a long time. We want to see more efficient routes, more on-time flights, and, frankly, better service to the flying public. Too often, however, we have seen programs that have been delayed and with cost overruns. So what steps is FAA taking to speed the delivery of NextGen programs, and what are the lessons that you have learned from past challenges, such as the cost overruns and the schedule delays and the, which we were talking about, the ERAM system, which went $300 million over budget?

Mr. HUERTA. Taking first the ERAM program, as you talked about. When I joined the agency over 5 years ago, we base-lined the program and created a Program Management Organization that was really designed to impose project management discipline on these major technological programs. Since that time, we have met all of our schedule and all of our cost commitments for that program. And as I testified, it is now complete. You can think of it as building the iPad upon which we are now building the applications.

For our current fiscal year budget request, it is focused in four areas that were designed and negotiated in conjunction with industry. They fall in four areas, Data Communications, Surface Operations, Multiple Runway operations, and Performance Based Navigation. The principle and framework that we have worked with in industry is that we want to match benefits with investments and deployment of projects. We have used this approach for the last several years, and have found it to be quite beneficial in ensuring that industry is on board with how we are prioritizing investments and that they are actually seeing benefits, and they have identified the types of things that they would like us spending these resources on. So I think that we are making very, very good progress and yielding real benefits.

Mr. DIAZ-BALART. Are you pretty certain that what you have learned now you can use to improve other NextGen programs moving forward as well?

Mr. HUERTA. I do. When we established the PMO, the idea was that we wanted to create a replicable process that could be used on the full scope of technology deployments that the agency is undertaking. So we have employed this in our terminal modernization platform, which is proceeding to pace with the support from this committee, and we have also introduced and are using these principles in our airspace redesign programs as well.

Mr. DIAZ-BALART. Could you also outline your progress and deployment plans for some of your major NextGen programs, such as ADS–B or—again, you mentioned performance based navigation, but if you could outline some of that as well?

Mr. HUERTA. Yes, in fiscal year 2017, our focus in the DataComm area is to complete the deployment of tower service at 56 airports, and that work is already underway. We have 8 that are deployed so far; we will be at that 56 by the end of the calendar year 2016. Then we convert to modifying, and for surface operations, the focus is on a program we call Terminal Flight Data Manager. This is a program that enables us to better balance operations on the surface of the airport and would enable us to run a much more efficient operation through information sharing, through the wide scope of users at the airport.

In the area of Multiple Runway Operations, our focus is on a program called Wake RECAT. This is where we are able to close separation standards between aircraft, and it gets us greater capacity on existing runway facilities. Within 2017, our focus would be on three locations, where there would be a great deal of focus on implementing this. This is a very, very promising program that is yielding significant benefits in places like Memphis and Atlanta. Performance Based Navigation would be the focus on fully implementing Atlanta and Charlotte, as well as our programs in Cleveland, Detroit, and southern California.

Mr. DIAZ-BALART. Thank you, sir. Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. Let me just quickly follow up on your questions, and then turn to my own, because I, too, am eager to get some details on the record here about the NextGen program and the kind of milestones we can expect. I think you have answered that question. I wonder, are things we should know about that might prevent us from fully achieving this transition to satellite based navigation. Then I wonder particularly about the expectations for the commercial air carriers and the general aviation community, which are required to install the necessary avionics for the ADS–B signal by 2020. What can you tell us about the progress these groups have made?

Mr. HUERTA. Well, I think your two questions are related, because I think one of the significant challenges is to ensure that the users of the system are, in fact, equipped with ADS–B by 2020. The agency has been working for the last several months on an initiative we call Equip 2020, which is a collaborative activity that we have with the industry, and we are focused on the two big classes of users.

For commercial aviation, the airlines, the air carriers are currently submitting their plan schedules to equip their aircraft during their regular maintenance cycles, and to have that done by 2020, as required by the law. For general aviation, it is a much larger universe of potential users. Estimates vary between 100,000 and 160,000 aircraft in the general aviation space. The principle barrier has been cost of equipping the aircraft, and significant progress has been made in the last year with price reductions that have now gotten it to the point where it is really within what the industry had said represented an affordable price target in 2008.

So we are very focused on ensuring that people don't wait, that they take the time to equip now so as to ensure that we don't run into a bottleneck in the year before 2020.

Mr. PRICE. Thank you. That is helpful. Let me turn now to, I suppose, the predictable topic of ATC privatization and the reauthorization measure. As you know, our Transportation and Infrastructure chairman would like to privatize air traffic control, and I know that countries such as Canada and the United Kingdom have instituted aviation systems that separate air traffic operations from the safety regulatory system. When I met with your chief operating officer a few weeks ago, we discussed some of the coordination that goes on between the air traffic organization and aviation safety. Just to give us an angle of vision on this, would you discuss with us the value of having air traffic and aviation safety under one umbrella organization? Has it helped advance the safety of the system? How has it helped advance the safety of the system, and, for that matter, the implementation of the systems?

Mr. HUERTA. The principal area of focus for us has been on shifting from a very linear process of developing and deploying technology to a collaborative process. What I mean by that is a linear process has the engineers design something, and then they throw it over the wall to the certification people who make a decision as to whether it is safe. Then it gets thrown over the wall to the operations people, who need to figure out how to operationalize it and put in the system, and that process can take many, many years.

What we adopted, several years ago, was a collaborative process where we bring everyone together on the front end. And so that it opens up a dialogue, over what are the issues that we are going to see, and certifying the safety of a particular procedure or deployment. How does that relate to the technological work that is taking place, and then, what are the operational considerations that need to put into place. And what we have found is this collaborative process saves us a great deal of time.

Things that would ordinarily take 5 to 10 years, can be cut down to 3 to 5 if you are really aggressively deployed in this. And so it is important that in any framework that we are able to maintain that high degree of collaboration.

Mr. PRICE. With that, it sounds as though you believe that would not necessarily be threatened under our privatization scheme, but it might pose some pretty serious challenges given the working arrangement you have developed. Is that fair?

Mr. HUERTA. I think it is fair to say that everyone needs to share a common vision and a common set of goals, what the mission is, what we are trying to establish and when, and that is very important to do. Structure alone does not affect that, but it is an important consideration.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Joyce.

Mr. JOYCE. Thank you, Mr. Chairman. Mr. Huerta, in March of 2015, the Inspector General found that the FAA was not properly using data to identify safety risks and, therefore impeding the effectiveness of the FAA's hazardous materials voluntary disclosure reporting program.

In response to this finding, the Inspector General made nine recommendations to your agency, eight of which you agreed with, and one that you are in partial disagreement with—the Inspector General's recommendation to develop an automated system such as a website to allow air carriers to report potential violations under the Hazardous Materials Voluntary Disclosure Reporting Program. Do you feel this budget request includes sufficient funding to implement the eighth recommendation to develop an automated system?

Mr. HUERTA. Actually we are going at it in a somewhat different way. Our original non-concurrence was based on the technical feasibility and the cost associated with developing a standalone system. Since that time we have determined a way forward, but we can build into the automated reporting processes that we are already using in the aviation safety area, and not create a redundant system. We are now working out the details of that, and it is on track and we are in consultations with the IG on a schedule for doing that.

Mr. JOYCE. So, you prioritized this?

Mr. HUERTA. Yes.

Mr. JOYCE. Okay. Can you point to some tangible improvements in this program since March of last year?

Mr. HUERTA. Well, I think voluntary reporting programs have proven to be very, very good, in terms of generating data. Data is really at the heart of how you analyze and assess risk in the system and mitigate it.

[The information follows:]

HAZARDOUS MATERIALS REPORTING SYSTEM

The hazardous materials Voluntary Disclosure Reporting Program (VDRP) information will be incorporated into an automated system being used by FAA's Flight Standards organization (AFS). ASH and MS reached agreement in late 2015 to modify the existing VDRP system to allow air carriers to electronically report potential hazmat violations. User requirements and cost estimates for the necessary system modifications are being developed. No additional funding for this effort was included in the FY 2017 President's Budget request. This approach achieves cost efficiencies by leveraging FAA's existing IT system capabilities.

ASH's Office of Hazardous Materials Safety (ADG) has been actively monitoring the voluntary disclosure work that our HazMat field offices are performing and making program improvements. ADG personnel are engaged continuously with managers in field offices to ensure information is entered and uploaded into our central tracking system. An air carrier's proposed comprehensive fix and the field office's verification of satisfactory completion of the fix is included in this tracking.

Quarterly FAA HazMat VDRP status reports are disseminated to FAA HazMat managers in field offices, and issues are discussed during monthly and ad hoc HazMat managers meetings.

Mr. JOYCE. How would your agency work directly with DHS, specifically TSA to be sure that FAA funding is used to its fullest potential?

Mr. HUERTA. We have a very close, collaborative relationship with the Transportation Security Administration. I have met personally with the Administrator Neffenger, and before him, his predecessor Administrator Taylor, and we regularly share information in terms of what we are doing. The things that we are requesting in this budget with respect to securing are very different from the things that are requested by TSA, where they are dealing with broad passenger safety in the system, and we are dealing with the security of the air traffic facilities, that we use to control air traffic.

And so there is a lot of dialogue that takes place, but we have very different needs.

Mr. JOYCE. Which brings me to another question. In response to the fire set at the Chicago Air, Route Traffic Control Center, by an employee in 2014, the IG's office released a report this past September stating that the FAA's contingency plans in their security program were insufficient at the Chicago Air Traffic Control Center. Can you please provide specific steps that your agency has taken to apply the seven recommendations made to your office by the Inspector General and reported in their findings?

Mr. HUERTA. Sure. The report was issued that followed a 30-day review that I had undertaken immediately after the incident in 2014. That report identified a number of the same issues that were identified by the Inspector General which we had already mitigated or were in the process of mitigating. They dealt with things such as access control, and separation of critical infrastructure, and a whole range of other issues associated with that. In this budget we do have some additional funding requested to deal with long-term coordinating facility security and we will continue to carry those out.

Mr. JOYCE. All right. Thank you. I return the balance of my time, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, sir. Mr. Quigley.

Mr. QUIGLEY. Thank you, Mr. Chairman. Administrator, good afternoon.

Mr. HUERTA. Good afternoon.

Mr. QUIGLEY. So you have the statutory authority to "Relieve and protect the public health and welfare from aircraft noise to regulations, to control and abate aircraft noise." Of course O'Hare Airport, and we only had 50,000 complaints in November, 82,000 in December where, you know, it is winter and windows are closed. O'Hare modernization so far not so good on performance, but certainly good at cranking up the noise complaints.

Any number of ways to look at this, so let us start with soundproofing, compounding the problem that we do not have enough homes schools and businesses sound proof without materials wearing out after 15 to 20 years of use. I believe you are still going forward with the '65 DNL analysis, which it is lowered, as it probably should be, just expand fairly dramatically just how many areas need that soundproofing.

And finally, if you have time, some sense of FAA and the city's efforts to try to balance out the use of those runways, not just at nights, to try to reduce this burden.

Mr. HUERTA. Let me take first the 65 DNL, that is the study as you correctly noted is underway right now. The study has a 2-year timetable attached to it, the first of which is data collection, and that is based on the survey, a nationwide survey.

Mr. QUIGLEY. Is that sampling?

Mr. HUERTA. It is sampling.

Mr. QUIGLEY. And it includes O'Hare, right?

Mr. HUERTA. I cannot tell you who it does include, but it does include major metropolitan areas.

Mr. QUIGLEY. Well, I would love to know, if you can get back to me about O'Hare being sampled as well.

Mr. HUERTA. We can get back to you with the full scope of what the study looks like. But essentially what it does measure are impacts of aviation noise, and we are answering two questions as a result of that study.

[The information follows:]

65 DNL NOISE STUDY AND O'HARE AIRPORT

The FAA is conducting a community resident survey to update the scientific evidence on the relationship between aircraft noise exposure and its effects on communities around airports. The analysis of survey results should be completed in early 2017. The FAA will then determine if the threshold should be changed, using these results as the scientific basis. This consideration will be coordinated with other Federal agencies and will include an opportunity for input from the public.

The current research consists of surveying residents in communities around twenty airports across the nation. The airports were chosen through a technique called balanced sampling to represent all airports across the nation. This is the single largest survey of this type undertaken at one time.

In order to uphold the scientific integrity of the process and protect against an inadvertent bias of the results, the FAA is not releasing the names of the individual airports prior to the survey being completed.

The individuals in the communities who receive the survey were chosen based on the DNL exposure level they currently experience. Individual households exposed to DNL levels between 50 and 70 decibels will be sampled. For each 5 decibel band between DNL 50 and 70 decibels, 100 households will be surveyed, for a total of 500 households surveyed around each airport.

It is important to have scientific confidence in the research methodology and results. The day night average sound level (DNL) metric and the DNL 65 decibel (dB) threshold are backed up by a substantial body of scientific survey data on the reactions of people to noise. This data was compiled in the late 1970's by a researcher (T.J. Schultz) and reaffirmed in 1992 by surveys conducted by the U.S. Air Force. It is timely for FAA to update survey information based on today's aircraft fleet and operational levels, and also to determine if people are more highly annoyed by aircraft noise than by other transportation noises.

Mr. HUERTA. The first question is, is the DNL metric still an appropriate metric to measure impact of aircraft noise on communities, and the second is, if it is, is 65 still the right level?

And we have to have a full year's worth of survey data in order to have a valid analysis there, and we are underway on that.

As it relates to the O'Hare Modernization Program, and your reference to that program, the most recent amendment that we made to the Letter of Intent for OMP, is to accelerate construction of another parallel runway. This is something that does enable us to get at what you are trying to get at here, which is separation and spreading out of traffic, and that is one of the things that we are very much interested in working on with the Airport Authority and with the communities.

As it relates to soundproofing, that is certainly a conversation that we are happy to have with the airport, in terms of how to allocate their federal funds toward this and other projects there in Chicago.

Mr. QUIGLEY. That is not even close to the kind of money at any local airport. Airports like Atlanta and Chicago have extraordinary national implications for the economy, to think that the city, or even the local suburbs are going to be able to muster that, even with the help of the airlines. It is just not there. And let us recognize what we already know. I mean, Harvard School of Public Health Studies showed, that the issues with noise, especially on senior citizens, has a profound cardiological impact.

Why don't we recognize that we have got a real serious problem here adding yet another parallel runway when all the so far though, parallel runways have given us. Let us just look at this. We have spent billions on O'Hare Modernization, let us start with 2004, O'Hare has 75 percent on time departure, and 76 on time—O'Hare ranked 25th, with a 76 percent on time departure. Fast forward to this year, 76 percent of flights departing on time.

We had 7.600 fewer operations than August 2004, so we spent billions on dramatic improvements in the airport, with absolutely zero improvements in performance and noise complaints. And with all due respect, your own data shows that will increase dramatically, when O'Hare modernization is completed. So, to think that we cannot either spread out this burden more, or end or add a lot more resources for noise buffering is just not going to get the job done.

Mr. HUERTA. As I said one of the things that the program does enable us to accomplish is the thing that you were talking about which is perhaps spreading this out over a larger segment of the surrounding area around the airport. As it relates to resources, this is certainly an eligible use of AIP Funds. Should there be an interest in allocating more to that, that is certainly a conversation that we would be willing to have.

Mr. DIAZ-BALART. Mr. Yoder.

Mr. YODER. Thank you, Mr. Chairman. Administrator, welcome to the committee.

Mr. HUERTA. Thank you.

Mr. YODER. I wanted to ask you about drones, and the FAA estimated that 1 million drones may have been sold this past holiday season. So it is becoming an increasingly interesting topic. Particularly, I am interested in how the FAA plans on managing the airspace below 500 feet for drones that leave line of sight. What is the plan there? Are you working with NASA on their unmanned traffic management system? And what can our government do to make sure that we are not holding back progress in growth in this industry and the entrepreneurial spirit in this country while still providing safety. How do you find that balance?

Mr. HUERTA. Sure. We are working with NASA on UTC, but I will stress that while that represents one technological solution, it is not the only technological solution that might be out there. I think that as we are looking at how we integrate unmanned aircraft, in many respects we have a more complicated challenge than a lot of other countries do, simply because the airspace that these aircraft fly in is the same airspace that is used by our very, very large general aviation segment.

And so, we have a number of things that are ongoing right now. The first is, as you well know, the rulemaking we are expecting to finish in the spring which deals with small unmanned aircraft below 55 pounds. In addition to that, we recently commissioned an aviation rulemaking committee to look at an even smaller category, the so-called micro unmanned aircraft systems, to see—and this follows on the rulemaking activity—where we got a lot of comments on was there a way that we could deal with a smaller category of aircraft.

Beyond line of sight represents a significant challenge for us, and this is one of the questions you asked about. We have two research activities that are underway, that we call our Pathfinders. There are a total of four, two of which focus on beyond line of sight. One is with the BNSF Railway, and research they are using to use unmanned aircraft flying at relatively low altitudes for safety inspections, security inspections, and so on, and testing this out.

The other is with a company called PrecisionHawk that is very focused on the specific characteristics of the aircraft. I think a larger question for us as government, is that we are starting to think about is how to square the FAA's interest in maintaining a safe airspace with what a local government's concern might be to regulating quiet enjoyment of property owners within that jurisdiction. This raises a number of questions that we have not had to deal with before, but we are starting to put some people together to think about and talk about it, and we will all be consulting with the various interests on that.

Mr. YODER. I appreciate that answer. It is also my understanding that your budget submission does not list, changing topics here, specific dollar figure for the essential contract tower program, which serves a lot of our districts. And if I am incorrect, please correct me.

Can you tell the committee what funding level with the contrast tower program is expected to need for fiscal year 2017?

Mr. HUERTA. Sure.

Mr. YODER. And if it is not listed, why is it not listed?

Mr. HUERTA. We have requested $157.3 million for the Federal Contract Tower Program for 2017. That is a bit of a plus up of the $154.4 million that was included in the fiscal year 2016 Bill. That includes the cost-share program as well, and so this would enable us to consider some modest expansion of the program in '17.

Mr. YODER. Okay. I appreciate your emphasis there. And then, lastly, I wanted to ask you about the ground-based navigation surveillance systems. You know, we have had a good conversation today about Next-Gen, and our investments there which is important, because we have got to modernize, but obviously we have ground-based systems that, in some cases they are 20 and 40 years old and in desperate of recapitalization.

I guess I am wondering, what is the FAA's to address the need to recapitalize these assets? Do you have the recourses you need to replace these systems over the next 3 years? And it is my understanding that some of the equipments are really outdated, and if we maintain the old parts, and may be throwing good money after bad. So could you speak to that a little bit.

Mr. HUERTA. Sure. In fact, many of these facilities are 50 years old. We do have a request included in the capital program, in excess of $400 million, which represents a down-payment on the backlog. And what we are doing is prioritizing which are critical facilities that we need to upgrade, versus those that we can decommission, or which have been overtaken by new technology.

The major focus of that, of what we are requesting in '17, about a quarter of it goes to aging power systems which are really the backbone of all of these NAVaids, followed by a capital program for our large en route centers. These are the facilities that are about 50 years old, for the most part. Following that, our third largest category is our terminal facilities TRACONS and towers, many of which are also significant facilities.

We see this as a 10-year program, where we really have to be focused, overall, on continuing to make these investments to ensure that these facilities are in a state of good repair.

Mr. YODER. Thanks for your answer. I yield back Mr. Chairman.

Mr. DIAZ-BALART. Thank you. Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman. Thank you for your time. I appreciate you coming up. A couple of years ago the FAA changed its hiring practices. Before the agency had granted a preferences in hiring to graduates of a collegiate training initiative, approved program, and Ken State University, and my district has the only ATC CTI program in the State of Ohio. The program prepared students in the air traffic control field and was considered a prerequisite.

Now, in 2013, the FAA dropped this preference and instead relied on a biographical questionnaire to review candidates for air traffic control positions. Many candidates were passing the FAA's aptitude and skills exam, but were failing the biographical assessment.

So I have heard a lot of concerns, in congressional district and in Ohio about these changes, people and kids who have spent the time and money to attend the CTI initiative school, and I have CTI school in my district, as I mentioned that has played an invaluable role. I have been out, I have visited the school, and it is a great program. So I know that you have made some adjustments to the biographical questionnaire, can you please elaborate on this adjustments, talk a little bit about how the changes have impacted hiring? And also, if you can give us an update on how these new developmental controllers are fairing in their training as well.

Mr. HUERTA. Sure. The biographical assessment is designed to focus on factors such as flexibility, risk tolerance, self confidence, resilience, stress tolerance, those sorts of things. And so it is a set of skills that are as important as the basic skill test that are included in the test itself. The principal factor that I think affects people's ability to get a job however, is just the sheer competitiveness of the profession.

On average we hire something between 1,600 and 2,000 controllers, that is what our target would be for each year. The first time we opened this up as a public announcement, we got in excess of 25,000 applicants for those positions. Clearly there is going to be a large number of people that are not selected, just given the ratio of applicants versus jobs.

I will say that the CTI students have fared very well in this process. In the first year where we looked at a full year's worth of data, essentially a CTI—two-thirds of those that were selected in that initial cohort, had some CTI background, either a 2-year or a 4-year program. And so we believe that actually the combination of the screening methods did, in fact, give credit for the skill set that somebody coming out of the CTI Program might have. And that was reflected in the applicants.

Mr. RYAN. Are we running the risk of kids not going into those programs now, and not having that high level of qualification? Like you said, they are making their way in, that we——

Mr. HUERTA. I do not think so. I think we are seeing a lot of the programs adopting a broader base of potential job series that are there. And so I think that it is probably fair to say that you are far better off if you go into a collegian program, keeping open a whole lot of options open for possible careers in the aerospace industry, that can come out of it and not necessarily limiting yourself to air traffic.

Mr. RYAN. I appreciate that and we will follow up with you on that. Two other quick questions and I guess one is a comment. I saw that there was a $450 million decrease in the President's request with grant and aid for airports AIP so I know that there are a lot of people in this committee and Congress that are going to try to fill that gap. I do not have time to get into that, if we get another round maybe I will let you elaborate on that.

One of the issues that I am concerned about that we are seeing a little bit on news reports and on TV, the laser incidents for a commercial aircraft and you know that more and more of these aircrafts are being attacked with lasers aimed at the cockpit and getting turned around in some instances. A flight last month had to return to Heathrow because of a laser beam so I would like to know what steps the FAA is taking to address this issue and protect the pilots, the crew and the aircraft from this ongoing issue? And coincidentally enough, we have a company in my district that is working with the military now as kind of advisors for the military to where I think would have a decent application here so can you just tell us what you are looking into now as far as addressing this issue, what technologies or research you are taking on?

Mr. HUERTA. Certainly I would like to learn more about the technology piece that you mentioned. What we are doing generally is that it is a crime to shine a laser at an aircraft. It is an incredibly dangerous thing to do, so we depend very much on our partnership with law enforcement at all levels, federal, state and local levels. I have seen the same data that you have seen and there are certain areas and hotspots where it has picked up and what that requires us to do, and what we are doing, is working with our law enforcement partners.

We have had a fair amount of success based on the reporting from pilots and being able to pinpoint where it is coming from, increasing enforcement in those areas and being able to apprehend individuals in many instances.

Mr. RYAN. Who are these people doing this? Are these just kids screwing around or is this a national security issue for us?

Mr. HUERTA. It is all of the above. It is kids screwing around, it is people who want to cause trouble, it is some people that think it is cool and fun who do not understand the danger of it. But any way you look at it, it is an incredibly dangerous thing.

Mr. DIAZ-BALART. Mr. Jolly.

Mr. JOLLY. Thank you, Mr. Chairman, Mr. Administrator, thank you for being here. I want to talk a little bit about the decision-making process for PFC applications and I know the significant contribution language is statutory but do you have rules or guidance as to how you interpret significant contribution?

Mr. HUERTA. We do. We would be happy to share the specific guidance with you but in a general sense, what we do is evaluate what the airport is proposing to do to make the investment in and the purpose of it.

Mr. JOLLY. But is the term significant contribution defined? Is it backed up by written guidance of any kind? And I'll tell you why, I do not intend this to be a gotcha question but you have a lot of airports frustrated by—they collected 4.50, they only get $3 approved when they go before your department and a meeting of the last year, we understand that in a sit down with the team, with your team, they discuss why it did not satisfy significant contribution and your Department's answer to this one particular group was: "Well we know when we see it."

That seemed to be a very elusive standard and frankly a somewhat frustrating explanation if it truly is the definition of significant contribution it is not well defined if it is simply: "Know it when you see it."

Mr. HUERTA. Sure, if you could share with me what are the details of that situation, I would be happy to look into it.

Mr. JOLLY. But the question, there is no further explanation of significant contribution that your Department adheres to? Any written guidance? What satisfies significant contribution?

Mr. HUERTA. I do not know how it is framed and discussed but I am happy to look into that for you.

[The information follows:]

PASSENGER FACILITY CHARGES (PFCs) AND SIGNIFICANT CONTRIBUTION

In 49 U.S.C. 40117, Congress mandated that, in order for a Large or Medium hub airport to collect a PFC for a project at $4 or $4.50, the project must "make a significant contribution to improving air safety and security, increasing competition among air carriers, reducing current or anticipated congestion, or reducing the impact of aviation noise on people living near the airport."

Congress did not further define what "significant contribution" means when it passed the provision in 2000. However, the very phrase "significant contribution" (and the fact that the significant contribution areas were stated differently from those delineated in the original 1990 provisions for "adequate justification") drew a clear distinction that the "eligibility and justification" required for the $3 PFC was not sufficient and that the "significant contribution" required for the $4.50 level is therefore defined differently.

In the Preamble to the PFC regulation, 65 Fed. Reg. 34536, 34537 (2000), the FAA provides that it would implement the provision on a case by case basis. The FAA also listed factors to consider according to types of projects. These factors are also included in FAA Order 5500.1 (PFC Order) which is widely available to public agencies and their consultants. The factors include:

> Congestion (Capacity). Does the project support or is it part of a capacity project to which the FAA has allocated Federal resources or that would qualify for such resources? For example, is the project included in an LOI or does it satisfy the FAA's benefit-cost criteria for large AIP discretionary investments? Has the project been identified as an important item in an FAA Airport Capacity Enhancement Plan? Does the project alleviate an important constraint on airport growth or service?
>
> Safety and security projects. Does the project advance airport safety and/or security? In the case of AIP discretionary funds, highest priority is usually given to those projects that meet regulatory requirements for safety and security under 14 CFR part 139 and 49 USC 1542, respectively. A similar approach to assessing PFC significance may be appropriate.
>
> Competition. Does the project mitigate or remove barriers to increased airline competition at the airport? Has the project been identified as an

essential component in the airport's competition plan or other similar documents?

In consideration of the case-by-case implementation noted above, the FAA has documented significant contribution in each PFC decision issued for large and medium hub airports. The precedents set by other PFC decisions directly influence the FAA's decision-making process when reviewing similar work at other airports, although the FAA does also recognize that changing technological and industry considerations make it necessary to continue evaluating each situation on its own merits.

The FAA encourages public agencies to contact their local FAA Airports office early in the PFC application development process (as well as early coordination during the project planning process) for advice about PFC application issues including significant contribution, among many other statutory and regulatory considerations.

Mr. JOLLY. Okay, I would appreciate that and I would appreciate following up with you on that because if there are not standards or consistent standards by which these decisions are made, perhaps we need to address it up here if we could.

Second question, different subject, you all commissioned a study about separating safety regulators from air traffic control service providers a few years back I believe, about 2 years, do you recall this study?

Mr. HUERTA. Not during my tenure at the FAA.

Mr. JOLLY. Okay, then I will submit it for the record.

Mr. HUERTA. Sure, thank you.

Mr. JOLLY. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. And I may have skipped over Mr. Young and if so, I apologize to the gentleman so, Mr. Young, go ahead.

Mr. YOUNG. Thank you for the opportunity, Mr. Chairman, Ranking Member Price, Administrator Huerta, welcome. I have a question about the FAA proposal to get rid of the contract weather observer program at 57 airports. Last fall, contract weather observers at the Des Moines Airport spotted the formation of a tornado. It was not spotted in the tower by our traffic controllers or other airport personnel, but the contract weather observers and they were able to mobilize citizens in Des Moines.

A concern I have is about the responsibility the FAA wants to shift over to the air traffic controllers and that could be a real strain on them aside from them just making sure the planes get in safely because they can not leave their towers to do this and go down on the ground because of regulations.

It keeps them from comprehensively monitoring the weather, in my opinion. Earlier this year, you had a safety risk management panel at the Des Moines Airport, our staff was involved and my office participated and thank you for that but it seemed like with this panel, was not really about getting the feedback from the Airport Authority, the Air Force, the contract weather observers, and others but it is more less you telling folks how it is going to be and what you are going to do and not really get some feedback. So it does not seem like the FAA is providing any kind of insurances to airport officials, the Air Force and Congress that this new system is safer yet you are bound and determined to go forward regardless. Can you talk a little bit about how the FAA is proceeding with this and I may have a follow up question.

Mr. HUERTA. The issue is not whether the function is provided. The issue is, as you pointed out, who does it and we already use limited aviation weather reporting station controllers to provide this service at close to 400 sites in the country right now and that includes 143 FAA towers and 250 contract towers. The 57 that we identified were facilities that currently use contract weather observers but have an operational profile that matches with that 391 that are already doing this. The process that we put in place is to commission an individual safety risk assessment for each of those facilities and that is what is ongoing right now.

The meeting that you reference is part of that process where we walk through what our plan would be here, in your case, at Des Moines Airport and we hear things back and then that is combined with an overall assessment of the complexity of the airport and are there factors that we need to consider before we make a final determination. We have not made that determination at this point, that analysis is ongoing.

Mr. YOUNG. Thank you and we will have some further concerns we will pass along to you.

Second question, and my last question, the Association for Unmanned Vehicle Systems International predicts 80 percent of the commercial market for drones, eventually will be used for agricultural purposes. Now it is no surprise I have concerns with this because Iowa is a very agricultural state, and a lot of other members have some interest in this as well. Iowa farmers are using drones right now for precision agriculture, monitoring their lands, monitoring their herds and flocks, so I want to make sure stakeholder comments from the agriculture community are included. The question is how are you soliciting comments from them and then, when guidelines are put out and it would be interesting to find a timeline for the 55 pound or less guidelines and when that will be done, how will you be sharing the guidelines and educating the agriculture community what these guidelines will be?

Mr. HUERTA. Sure, taking first the rule, the small UAS rule. It is a rulemaking we expect to complete in the spring. It did go out for initial notice around this time last year so we are wrapping up the adjudication of comments on that. As it relates to agriculture, they are part of our broad outreach efforts, as we do consult with users and stakeholders and we do have a number of exemptions that we have granted to users so that they can operate, for commercial purposes, unmanned aircrafts in agricultural use, for agricultural surveying, for spraying applications and other activities. And if there is continued interest from other players, we do have a very active exemption process that we can go through.

When the rule is in place, the need for a lot of that goes away because what that will lay out then is for commercial purposes, what are the specific guidelines for operation.

Mr. YOUNG. And finally, just really quickly, I want to make sure farmer's proprietary information is protected, should the government, FAA or any other entity be flying over private property, I just want to make sure that their proprietary information is not used by the government.

Mr. HUERTA. Well I think——

Mr. YOUNG. It's a very sensitive issue with the agricultural community.

Mr. HUERTA. Sure. I personally have not heard of that specific issue but I will say that we have very robust data protection programs in place for the full scope of our regulatory activities where people report information and we are able to maintain the confidentiality of it.

Mr. YOUNG. I would like to learn more about those protections. I yield back the time that I do not have, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Young. Mr. Huerta, in 1995, FAA was given significant flexibilities and also relief from federal procurement laws and regulations. Now, why have we seen challenges in NextGen technology procurement development in spite of these flexibilities, that's one question, and are there any additional authorities that you could use in order to more effectively develop and deploy NextGen technologies?

Mr. HUERTA. Sure, when we received the procurement changes that were done, we created the Acquisition Management System and actually that has been a good news story for us. That has enabled us to reduce time to award and in fact, we consistently rank better than our peer agencies across the government, both in time to award and cost of award.

Our cost to award relative to the cost embodied in the contract is something that compares very, very favorably. As it relates to project overruns, I mentioned earlier the program management discipline that we have introduced in the last few years and if you look back over a 20 year period, in the first 10 years after we had acquisition reform and changes, we were not where we needed to be in terms of being able to manage overruns. But as a result of the program management and acquisition discipline that we put in place, we have seen a significant improvement these last 10 years. We have very low percentage overruns in projects and we are able to bring them in on time.

Mr. DIAZ-BALART. As—and Mr. Price talked about that, we know that a fully transformed system is going to be past 2025, but can you speak broadly as to what realistically can be achieved by 2025, by that deadline as far as next year?

Mr. HUERTA. 2025 was the original target date that was set through an interAgency effort through the Joint Planning and Development Office, when we first established the program. Since that time, as a result of additional research things like new users, there have been adjustments to it. But we believe given all of that, most of the original objectives that we had set when we first established that program will be met by 2025.

What do those things include? It includes programs such as NextGen weather. It includes a program that we call SWIM, which is System Wide Information Management, which is a way of information sharing across the full scope of the users of the system. We will have full en route DataCom, which is a huge time and safety benefit associated with how we transmit flight instructions to pilots and how they respond to it.

We will have ADS–B Out, fully deployed but we will also have ADS–B In procedures, which gives pilots greater situational awareness, blending data from a broad variety of different sources, We will have much greater use and emphasis on more fuel efficient procedures, which is where the airlines really see the significant benefit and where you also see significant benefits associated with emissions.

Integrated surface operations, I talked a little bit about how we are starting that in fiscal year 2017. Having fully integrated service operations actually enables us to ensure that what you do not have is extensive taxi out times with attendant burning of fuel emissions and noise and everything that goes with that. You can get off the surface of the airport much more quickly.

That is what we were envisioning when we first established the 2025 framework and I think it's fair to say that we're well on track to delivering that by 2025.

Mr. DIAZ-BALART. Thank you. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Administrator, I want to return just for a moment to the authorization situation that we face. As you know, the authorization for the FAA's programs expires at the end of March, the Transportation Infrastructure Chairman's controversial reauthorization proposal has been shelved. Discussions are already under way to determine the length of any short term extension. I do not imagine anyone, yourself included, wants to see a repeat of the 23 short term extensions that the authorizers had to resort to a few years ago.

It would be helpful, I think if you just described to us how these two and three month extensions affect the operation of your Agency and key stakeholders. For example, as we approach airport construction season this spring and summer, what—in practical terms, what does short term extension mean for planned airport projects?

Mr. HUERTA. Well if we are in a period of short term extension, contracts, by necessity, have to be shortened to fit within the authorized amounts that an individual or an airport or a contractor is able to spend. That leads to, and we saw this when we were going through the short term extensions, stopping and starting of contracts and all the attending costs that go with that. Needing to demobilize a contractor and to start it all up again.

On the Agency side, our ability to enter into longer term contracts also has the potential to be impacted as well and there are two effects associated with that. One is if you have to break a contract into smaller pieces, by definition, it is going to be more costly than if you are able to, as a result of having some degree of certainty, go into a much longer contractual time period with a greater degree of certainty. The disruption of the stopping and starting not only slows things down, but it does impose very very real and significant costs.

Mr. PRICE. Thank you, that's helpful, very concisely expressed. Let me turn to the controller workforce. The staffing and training of that workforce. Your budget assumes that the Agency will have roughly 14,270 air traffic controllers, that is about 1,000 fewer controllers than you had 5 years ago. I wonder first what accounts for this drop? Are you concerned about the drop? What are the expected retirement patterns over the next few years that might exacerbate that decline and then just anticipate the next question, that has to do with training.

With regard to training, you recently switched contractors, what, if anything, has changed with your training program under the new contractor? What steps are being taken to ensure that there is an adequate number of sufficiently trained controllers for each facility? Might this assurance require you to do cross training? Additional cross training on different procedures and sectors in order to ease potential staffing problems? And finally, how are you working to prevent controller washout, I think the term is, to ensure that new controllers are successfully integrated into the FAA workforce.

Mr. HUERTA. First of all on the staffing, we are still catching up from the effects of 2013 when we went through the sequester and the shutdown and we closed the FAA Academy which effectively meant that we lost a year of hiring and so now we're in the process of trying to make that up. Our current hiring plan calls for us to hire this year about 1,600—a little in excess of 1,600 controllers. We are actually very confident that we are going to meet the target this year in that we already have over 2,800 applicants in clearance. And of those, 877 are already placed at the Academy or placed in facilities. And so I think we are going to beat that particular hiring target that we have for this year and that will be really critical. Jumping over the training for a moment and looking at the washout rate, one of the things that we are really trying to focus on through things as we were talking about before with the biographical assessment and with the ATSAT and the training is to ensure that if someone is not cut out to be a controller that we are actually not putting them in a facility and figuring it out then. That we are actually able to rule that out and make that determination much earlier in the process so we spend a lot less on training if we are catching it at that point.

On the training contractor, the principle problem we had with the previous contractor is the way that the responsibilities were allocated. The FAA set the requirements but it was up to the contractor to determine the resources.

Under the new contract, the FAA maintains control over the resources and so we think that that gives us much better line of sight and ensuring that we are able to meet budget targets and not to encounter any overruns in the contract. The transition took place very seamlessly last fall and I think we are in a good place.

Mr. DIAZ-BALART. Thank you, Mr. Jolly. No further questions and, Mr. Quigley.

Mr. QUIGLEY. Thank you again, Mr. Chairman. One of the issues with OMP career modernization was the public outreach program. We were able to secure language in the Omnibus Mandate in the FAA to update its community involvement manual and its implementation plan. Can you tell us how that is going, the timeline for that and what kinds of programs you perceive coming from that change?

Mr. HUERTA. Sure. Last fall we did begin the process of updating the Community Involvement Manual which is effectively the guidelines for how you engage with and factor this into the whole development of airspace projects. We are currently, as a result of that, now working on developing a community involvement plan for airspace projects and Performance Based Navigation.

The idea here is we want to consult earlier in the process with communities and also do it in a way where we are providing information that is easier to understand through things like Google Earth images and overlay and flight paths and so on down the line. And the plan also addresses more effective communication on the purposes and the potential impacts of PBN projects. In terms of outreach and how we interact with the communities, one of the things that I think is important is more interaction up and down the organization. In the past I think that we have tended to focus much more on the airport authorities, and the airport authorities are in very different places. What we are really focused on is, how do we improve and document communication with individuals and groups that might be outside of what is a defined process by the airport? I am very committed to bringing community input and outreach earlier into the process and I think we will have better decision making as a result of that.

Mr. QUIGLEY. I agree and I applaud the notion of doing this earlier in any process, but let me just respectfully add this. Geography matters. There were instances in which an OMP, for example, the hearings were held in areas that were not the ones most impacted by the change and in the many areas most impacted by change there were no hearings whatsoever. The number of hearings involved I think should be taken into consideration as well in making sure they are with community organizations and not with the close relative of the existing aviation department. I think that would help as well.

I think, finally, you need to be honest with people. I think everybody understands airports are noisy places. Everybody understands how important they are to the economic engine of a region, but I will tell you nobody said at any of these meetings, you are going to get 150 more flights over your head because of this. You are going to get fewer, you are going to get more. That bluntness never took place. And I think people feel that they were misled or that information was withheld. I know that is hard to put those kinds of concepts into rules and regulations, but I think if you just imagine that you are living in those areas you would want to be told the truth, you would want to focus on the people actually impacted and you would want to hear it more than once, but I appreciate your effort. Thank you, Mr. Chairman, I yield back.

Mr. DIAZ-BALART. That was a pretty interesting exclamation point. If you arrange that I am pretty impressed.

Mr. QUIGLEY. Wait until tomorrow.

Mr. DIAZ-BALART. Mr. Jenkins.

Mr. JENKINS. Veterans and they continue to raise issues relating to the problems in the Air Carrier Access Act for people with disabilities being able to get on airplanes so really just want to put it out there that we look forward to working with the FAA and others to make sure that persons with disabilities have best possible access.

Secondly, I was very concerned and now I know this is not very necessarily right under your area of the budget, it may be more oriented towards the secretary's office but under the essential air service the FWA 2017 Budget Request for EAS looks to be cut pretty dramatically, about 25 million dollars. In West Virginia, my state, we have five EAS airports two of which are in my district. Are you able to share with me why there is a proposed cut, combined discretionary and mandatory, a total cut of over 29 EAS account?

Mr. HUERTA. Sir, unfortunately I cannot. While this is included in our budget the program, as you pointed out, is administered over in the Department of Transportation but we will work with our colleagues and get you an answer to that.

[The information follows:]

ESSENTIAL AIR SERVICE (EAS) BUDGET REDUCTION

The Department of Transportation is preparing a response.

Mr. JENKINS. Would you mind finding out? I would like to work with the Chairman. Again, this is Essential Air Services. It is truly that. Essential Air Service for my state and my district and I am very concerned about what appears to be a proposed budget cut. If you look at actually fiscal year 2015 it was 261 million through the OMNI, the enacted was 283. So we were actually putting more money in and, thank you, Mr. Chairman—putting more money in the current year, but instead of at least maintaining in budget as you reference we see a pretty dramatic cut and I would like an explanation and try to restore that.

The second issue is I am a freshman member and the largest airport in my district is in Wayne County, it is the Huntington Tri-State Regional Airport. It is one of the airports where we have had some increases in ridership. They have got serious issues of parking, they need repair on the apron, can you point me towards where we may be able to look to get funding to address the critical infrastructure needs that a growing airport has?

Mr. HUERTA. Sure. We would want them to sit down, if they have not already, with the Airports District Office and go over what is their overall master plan, what are their enplanements and their traffic and what would they like to see there? Now, there is the combination of the AIP program itself, which is they will have a portion of the program that they will receive by formula and which they will have the ability to allocate to these projects. I think what you are asking about though is the discretionary program. How they would compete for the discretionary program, and it really depends on what they are asking for and the schedule that they are asking for but we are happy to talk with them about that.

Mr. JENKINS. I would like to participate in those discussions and be a strong advocate because again we sense it is the larger communities, the larger airports may have a little broader profile and get the lion's share. We want to make sure we are at least trying to get our fair share.

My last question is while it is not cited specifically in my district there is a lot of people from my district that use it and that is the Yeager Airport in Charleston, West Virginia. Over this last year or two they have had a terrible issue relating to land movement. This is relating to the runway safety area that has collapsed completely. The engineered material is a resting system that is at the end of the airport. This was an investment by the FAA originally. A number of years ago the FAA funded—I think it is 90/10 on the construction and the engineering. Well, now we have had this collapse and while it was only 15, 16 million dollars to construct, estimates to repair it are in the 40 to 50 million. What is the FAA doing about the situation at Yeager Airport and how much skin in the game financially will the FAA have to right this situation?

Mr. HUERTA. I am not familiar with the details of that situation. I will check into it soon and we will get a response to you.

[The information follows:]

YEAGER AIRPORT, WV & ENGINEERED MATERIAL ARRESTING SYSTEM (EMAS) COLLAPSE

Starting in FY 2003, the FAA began providing incremental financial support to improve the Runway Safety Area at Charlestown Yeager Airport (CRW). The FAA provided more than $14 million in AIP Discretionary funding to improve the airport's RSAs, along with more than $2 million in AIP Entitlement funds and more than $1 million in Passenger Facility Charge (PFC) revenues. The Runway 5 RSA improvements were completed in 2008.

In March 2015, the EMAS system suffered a partial collapse at approximately the same time a slope failure occurred in close proximity. The cause of the slope failure and whether this failure contributed to the collapse of the EMAS system is still under investigation. Initially, FEMA was involved in this matter due to the occurrence of significant weather events prior to the slope failure. FEMA suspended relief assistance upon the emergence of litigation that includes CRW, their consultant and the contractor.

The FAA understands that there is active litigation that addresses the cause of the slope failure and whether the collapse of the EMAS structure is directly related to the slope failure. Because this litigation could potentially establish fault (design, construction, testing, etc.), the FAA believes it is crucial to let the litigation process conclude because that will shed light on the actual causes of the slope failure. The FAA believes CRW should seek to recover costs due to damages caused by the parties ultimately found to be at fault by the courts.

The AIP program cannot generally pay for the same improvements twice (unless the facility has reached the end of its useful design life). The FAA will generally not replace an existing EMAS system until it reaches its expected useful service life, which may range from 10-20 years. It would be premature to replace the system at CRW considering it was completed in 2008.

Another aspect the FAA must consider is whether the damage to the EMAS is due to the severe weather that occurred prior to the collapse. The AIP program is not authorized to provide disaster relief without express Congressional authorization.

The FAA does not have a statute-based program comparable to FEMA's Disaster Relief Fund or the FHWA's Emergency Relief Program, both of which provide specific funding for natural disasters or catastrophic failures. In rare circumstances when Congress has wanted AIP grants to help airports recover from national emergencies, it has expressly done so by statute.

The FAA continues to work closely with CRW as it relates to the cause of the slope failure and EMAS collapse.

Mr. JENKINS. Okay, I look forward to working with you. It is a stunningly tragic situation that is impactful in a large number of ways and so I need to get this on your radar screen and we need to resolve it. Thank you.

Mr. DIAZ-BALART. Thank you, sir. And, Mr. Cuellar, by the way very impressive group of folks from Laredo that you have had today in Washington.

Mr. CUELLAR. Thank you for being there and I apologize for being late. As you know we have got appropriations at the same time so we were with the TSA administrators, so, Administrator, I am sorry for being late. Let me ask you just a couple of quick questions. One of the patterns I am seeing in some of the agencies is that they are having a hard time hiring people. And I do not know if you covered that here, but I know that in Homeland and other agencies they have been having trouble. Usually it takes over a year and I do not know if you have ever gone into jobs.gov I think and gone through that. It is a rather complicated process. It takes a long time. Do you have any way of getting some of your folks hired that is a little bit more expedited? And I do understand. You need the stem training, there is a different type of training that goes into the folks that your hire but do you have anything and I am sorry if I missed something when I was not here, but is there something that you are doing to expedite your hiring?

Mr. HUERTA. Sure. We did talk a little bit about that, but just on a high level. What we did talk about is we are in a catch-up mode, particularly for the air traffic controller series. We have a target this year of hiring some 1,600 plus people which we are going to be. We are well on track to doing that and we did that by opening up two series. Two ways to get in there. An experience track and an inexperience track. And right now we have about 2,400 plus people that are in-vetting for the 1,600 positions and we have close to 900 of them that were already placed at the FAA Academy or in facilities, and so I think we are well on track. But we are continuing to try to find ways to shrink that time period that it takes to get people in the system.

Mr. CUELLAR. So what is the time that it normally takes and what are you trying to shrink that to?

Mr. HUERTA. Well, it is well under a year in our case. What we have is we have gone to a process for controllers where we open up a job announcement annually where anyone can apply and so what we want to have is a fresh list that we are going through every year. If someone is an experienced or a former military controller it is even faster than that because they already have the experience, and as long as they pass the base qualification they may be in a position where they also do not have to go to the FAA Academy for training. They are able to go directly to a facility. For someone off the street though, once they come into the system it can take a good 2 years to get them fully certified as a controller. That does not mean that they are waiting. That means they are in training; that means they are assigned to a facility and they are getting checked out and certified on different levels of complexity and procedures. To get them fully certified in our most complex facilities will take several years.

Mr. CUELLAR. Following up with what Mr. Jenkins said about local facilities that sometimes need—and I understand there has been sequestration, there has been delays, there has been CRs, I understand all that but same thing. I have a tower in Laredo that we have been trying to work on and we have been working with Mr. Vaughn Turner from your office and other folks, my question is are you authorized to do public-private partnerships? Say we have a local entity that wants to help on the construction of a tower and are you authorized? I know some agents. We had to do that for Homeland to allow them to do some of that work, but are you authorized to do public-private partnerships, accept contributions from let us say a local government?

Mr. HUERTA. Yes. We have done that in a number of instances where a local entity—it may be a tower or another facility—because it is relatively new relative to peer facilities and so it may not rank as high in terms of a replacement cycle, but the airport or the local government may have a compelling interest to move that forward at a more accelerated rate and we do have the ability to cost share with them.

Mr. CUELLAR. Okay, I got just a few seconds left.

You know what Chairman Shuster is proposing and I am sure you covered this before I got here. We have been very supportive of what Mr. Shuster has been doing on issues, but on the privatization issue. I have supported privatization issues in the past, but when they take the appropriations away from us we have a problem with that. The reason I say this is Mr. Shuster is doing this. Chairman Shuster is doing this because he feels that you all are not being responsive enough and what do you tell us as members of the appropriators that we—I assume everybody wrote the letter saying we want to control the oversight, the appropriations, the purse strings. How do you respond to that? Because I have heard it from both sides and I am sticking with my appropriators here because I think we need to control the purse string, but how do you respond to the other argument?

Mr. HUERTA. The principle argument that we have heard the proponents talking about has been delays to the modernization of the system and so forth. What we have been very, very focused on is how we deliver benefits under NexGen. I would be happy to share with you. I know that we are running out of time here.

We have made great progress in deploying the core infrastructure and in deploying beneficial and accelerated and advanced navigation procedures that are yielding real benefits in terms of fuel savings, cost savings and so forth for the users of the system. And it is a longer conversation and I know we are out of time, but I would be happy to share that with you.

Mr. CUELLAR. Thank you, Mr. Administrator.

Mr. DIAZ-BALART. Following the Administrator, there is one other issue I would like you to touch on, which is it is no secret that Congress has been encouraging the FAA to streamline its certification process, to get products, frankly, quicker and faster to market. One of the key reforms to the certification process is the organization designation authorization—ODA—where FAA delegates authority to industry so that, again, the product certifications happen more quickly. Can you describe the progress the FAA has made in advancing the use of ODA and also how FAA has put into place a more risk based approach to safety oversight?

Mr. HUERTA. This is an important program. It is something that actually is very important to me. We did commission in the last year a set of coordinated changes that we call AIR Transformation. AIR is the acronym for our Aviation Certification branch. The key elements of the transformation are refreshing the certification strategy which is really what the designees are looking for. What they want to understand is if they make investments in processes and so forth, they want to be very clear on what does that mean we are not going to do? Because where they have a hard time is if they make a significant investment in business processes, oversight processes and then we come in with what they feel is a redundant layer of oversight there. A big part of that is the second factor, which is the management systems where we are actually able to track what they do and match it with what we are doing so that we have line of sight on how the system is actually performing in real time. And that it is not simply left to individuals exercising discretion without fully understanding the full scope of what the company is actually trying to do there. And then the third is to flatten out our organization and work on the skill sets of the people that are there and I will give you one example on that. In general our certification specialists tend to come out of the industries that they are overseeing. And that sets up a situation where I like to think of it as everyone wants to build the airplane, and so the debate that you are having is how best to build the airplane. When you are overseeing a designee, it is a different skill. When you are overseeing a designee, the question you are asking is does the designee have a reasonable basis to make the decision that they have made?

Now, that may not be the decision you would make, but you are only evaluating is it reasonable for them to have reached the conclusion that they reached?

And there is a training component to that. There is also a skills component to that, because that is really, as you correctly pointed out, how you analyze data. What does the data tell you where there is risk in the system and then how do you apply that?

And so those are the three elements of what the program involves. What underpins it is a whole change management effort underway because this is fundamentally changing how we do our job here, and then also ensuring that we have the tools in place to ensure that on the industry side, they are very focused on achieving what they need to do in a compliance culture.

Mr. DIAZ-BALART. And you mentioned organizational changes. Where are you as far as are you satisfied? Are those changes being made? Are you satisfied with those changes?

Mr. HUERTA. They are being made. It is a work in progress at this point. Conceptually what we have on the certification side is kind of a geographic organization. And so the Small Airplane Directorate is in the middle of the country near Kansas because that is where the small airplanes have historically been made. The Transport Airplane Directorate is in the Pacific Northwest where the Boeing Company is located.

What we have seen is the manufacturing process has changed a lot, and there is a lot of subcontracting that has taken place across the industry, and so a certification project can involve multiple directorates. And what that means is you have multiple chains of— you see where all this is going.

So what we are doing is taking the organization from this geographic base to a functional structure with skills and expertise that will have national responsibility, and we believe that will be a lot more efficient.

Mr. DIAZ-BALART. Great. Thank you. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Huerta, I wonder if you could address the research budget that you have presented to us. You are asking for $176.5 million. That is only 1 percent of FAA's total budgetary resources, but I assume it is a component of some importance.

I wonder if you could briefly summarize that importance. What areas in particular hold the most promise for improving safety? Where are the most significant innovations occurring? Are there particular areas within the research area that might be accelerated if we are able to produce additional resources?

And I suppose what I am looking for here a little more broadly is a sense of the distinctive importance of this research budget and the way that it complements research budgets in in other areas, draws on this. Why must you have your own research program? What does it bring to your operations that is of unique importance?

Mr. HUERTA. Well, I think the way to think of our research programs is it is applied research. We have a very strong partnership with NASA. NASA is responsible, and others as well, for doing the far out, you know, what is the promise that technology has?

You probably read today of an effort underway with NASA to really look at the next-generation supersonic transport and what that would look like. Our focus is on, how do you take that research and translate it into something that can actually be applied and used and integrated into our system?

And so our current areas of focus range from, how we are we incorporating new and composite materials? How do we certify them? What are their performance characteristics and so forth, and the manufacture of aircraft?

Power systems, there has been a lot of discussion about lithium batteries, what they represent in terms of their potential, but what do they represent in terms of hazard? Fuel cell power sources as ways of getting us greater efficiency and less reliance on fossil fuels. New technologies for propulsion and new technologies for air frame design to address some of the issues that Mr. Quigley was talking about in terms of noise, and how do we get a much more efficient and how do we get a much better product that is a little more community friendly?

Cyber is a big issue. This is a technological-based organization, and like all aspects of technology, we have evolved to a place where we have far fewer proprietary systems. We now have systems that we buy as services from the private sector that are based on the public internet, IP protocols, and that brings with it all of the challenges that the banking sector, the manufacturing and the retail sector have in dealing and getting ahead of the cyber threat. And so we do a lot of research on how that threat is evolving and what are mitigation strategies for that.

I will say that we try to focus our research, and we do this with a research and development advisory committee that is made up of academics and industry participants, to prioritize what are things that are ready to go into the application timetable. And I think that we have had some great experiences there.

For example, a number of years ago, the big focus of the research program was in cabin safety. And what we have seen in the last 5 years have been that accidents have become more survivable, and that is due to a lot of great work that has been done on flammability standards, structural systems, and so forth, that have had the effect of taking what is an incredibly safe industry and making it even safer. But it is in this area of how do you take peer research and apply it in ways that will improve the system that our focus is.

Mr. PRICE. Thank you. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you. I thank the members of the committee. And seeing no further questions, Mr. Huerta, thank you again for being here. I think this has been very, very constructive.

Committee staff will be in contact with your budget office regarding questions for the record. I know that I have some, and I am sure that we will get others from members as well.

So I would ask you if you would please work with OMB to return the information for the record to the subcommittee within 30 days from Friday. And that will allow us to publish the transcripts of today's hearings and make informed decisions when we are crafting this next bill. I look forward, all of us look forward to continuing working with you very closely as we are in this process of drafting the bill.

Mr. Price, any final comments?

Mr. PRICE. No, thank you. Good here.

Mr. DIAZ-BALART. Great. Well, with that, I thank all the members. Thank you, sir, once again, for what you do and for spending this time with us.

And with that, the hearing is adjourned. Thank you.

Federal Aviation Administration
Fiscal Year 2017 Questions for the Record
Chairman Mario Diaz-Balart
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Diaz-Balart #1

Controller Staffing

The Inspector General has pointed out that FAA has had challenges in staffing critical facilities. The IG has pointed out that there is "uncertainty regarding how many controllers FAA actually needs for its most critical facilities."

Question: Can you tell us what steps FAA is taking to ensure that it has the right level of controllers at critical facilities?

Answer: Section 608 of the FAA Modernization and Reform Act of 2012 (P.L. 112-95) required the FAA to partner with the National Academy of Sciences (NAS) to "estimate staffing needs for FAA air traffic controllers to ensure the safe operation of the national airspace system in the most cost effective manner." The FAA has worked diligently with NAS and other constituents, including the National Air Traffic Controllers Association (NATCA), to not only review FAA's processes and models for developing controller staffing standards, but also to conduct a broader examination of the tools that FAA uses to develop its annual staffing and hiring plans for air traffic controllers.

The National Academies reviewed our staffing models and determined they were "reasonable". Over the last year, the FAA has worked collaboratively with NATCA, signing a Memorandum of Understanding (MOU) that describes specific definitions and staffing methodologies used by the FAA to develop plans for the controller workforce. The goal going forward is to work towards improving upon our current staffing models and other available tools to derive improved data-based methodologies. This will ensure proper staffing requirements are in place for our individual facilities as well as for the execution of our staffing plans.

In 2016, the FAA negotiated and implemented specific criteria that are being used to prioritize and expedite the transfer of employees in order to balance the controller workforce. The FAA also negotiated the ability to restrict movement out of facilities that were below a specific threshold of staffing, thereby ensuring the retention of certified controllers at facilities with the most critical need.

In addition, the FAA has adjusted its vacancy announcements to enable national placement of new hires using a priority placement tool that sorts all 315 facilities in order of staffing need. This national listing is published on a widely accessible internal website to increase the transparency of identifying transfer opportunities for existing employees and to ensure facilities are able to properly account for the data that is being used to determine vacancies.

Mr. Diaz-Balart #2

Controller Staffing

The IG recommends improvements to your staffing models, especially at en route (high altitude) facilities.

Question: Can you tell us what progress you have made to improve your staffing model for these facilities?

Answer: As a follow-up to the National Academy of Sciences (NAS) report required by Section 608 of the FAA Modernization and Reform Act of 2012 (P.L. 112-95), the FAA met with the NAS in May of 2015 to clarify this particular OIG recommendation. This involved MITRE briefing their recent data analysis and recommended changes that included updates made to workload model tasks, task times, and scheduling distributions. The presentation also included the associated impact assessment of changes on total and component task workload.

Following the briefing with the National Academies, the FAA committed to following up on the OIG recommendation by working collaboratively with the National Air Traffic Controllers Association (NATCA) and MITRE in performing deep dive analyses to assess task workload and workload-based Position-to-Traffic estimates.

The FAA and NATCA are continuing their collaborative path forward with the National Academy of Sciences. The FAA plans to meet with the Academy by the end of July 2016 to gain further clarity on the NAS report findings and recommendations pertaining to en route staffing standards and to discuss improvements made to the models since the NAS report. The review and recommendations regarding the en route staffing standards will be completed by the end of calendar year 2016.

Mr. Diaz-Balart #3

Delegated Authority

Expanded use of delegated authority means that FAA safety personnel may see a shift in responsibility from directly certifying products to more of an oversight role.

Question: How is the FAA managing this shift in staff responsibilities from direct certification to oversight of delegated authority?

Answer: The shift is a transition in how FAA safety personnel use ODA to conduct certification activities. The concept of ODA is to have an organization be responsible for the "direct certification" activities, meaning all the activities that result in finding that the design is compliant. Certification is always the FAA's responsibility, but with ODA the FAA manages that responsibility through targeted involvement and oversight based on risk.

The process for ODA projects involves an upfront determination by the FAA that a project can be delegated and that the ODA will manage the project in accordance with the process contained in their FAA approved procedures manual. This process relies on the ODA system to perform FAA functions, except where specific aspects of the project justify FAA involvement. This indirect approach to certification through FAA oversight allows the FAA to define types of projects that don't require upfront coordination with the FAA, which is even more efficient for the FAA and the ODA. Other FAA oversight occurs through periodic checks of ODA adherence to their procedures manual and technical decisions.

The FAA continues to make improvements to the agency directive (Order 8110.15B) that employees follow when managing ODA. These changes will allow FAA employees to delegate more to ODA where it has shown certification competence and to focus oversight on areas that are of a higher risk nature. The next change to Order 8110.15B is scheduled for release in June 2016, with a major revision to the oversight program planned for next year.

The FAA has also deployed new training courses for oversight personnel responsible for managing or participating in ODA inspections. These courses stress a systems approach to ODA oversight with a focus on the proper functioning of ODA processes, rather than technical compliance details. FAA engineering personnel are now required to attend specialized training on auditing. This training provides the skills necessary to conduct efficient ODA oversight and inspection activities. The FAA also deployed a new course for compliance and enforcement procedures as they relate to ODA.

Mr. Diaz-Balart #4

Delegated Authority

The Inspector General has been critical of FAA's pace in developing delegated authority for safety inspections, in particular, the IG says, quote, "FAA lacks a comprehensive process for determining staffing levels to provide ODA oversight." The IG makes a number of recommendations for FAA to improve the process.

Question: Can you comment on the status of FAA's implementation of the IG's recommendations?

Answer: The FAA is progressing with the implementation of the nine OIG recommendations. At this time, the FAA has completed Recommendation 4 by issuing guidance clarifying the minimum oversight requirements for personnel participating in ODA oversight.

We are working to address the remaining recommendations in calendar year 2016, with the exception of Recommendation 3, which will be completed in 2017. This recommendation will direct the FAA to implement systems-based evaluation criteria and risk-based tools to better target FAA oversight. The FAA plans to address the systems-based evaluation criteria through a revision to FAA Order 8100.15, Organization Designation Authorization Procedures that will be supported by an accompanying tool to assist in managing our risk-based oversight.

Mr. Diaz-Balart #5

Office of Commercial Space Transportation (AST):

The FAA published a NPRM titled, "Changing the Collective Risk Limits for Launches and Reentries and Clarifying the Risk Limit Used to Establish Hazard Areas for Ships and Aircraft." The NPRM was published in the Federal Register on July 21, 2014 and comments closed December 2014. In the time that the FAA has been considering these comments, launch licensees have had to request multiple waivers to the existing rules and seen the US Air Force Range Requirements further updated, making the FAA's rules even more out of date.

Question: Please report on the FAA's timeline for issuing such a final rule and how it will prevent the lack of a final rule from negatively impacting U.S. industry.

Answer: The Public Risk Rule completed its Final Team Concurrence milestone on March 11, 2016. Pending approval from OMB, the final rule is scheduled to be published in June 2016, in accordance with the following schedule:

Milestones	Date
Preliminary Team Concurrence	October 5, 2015
Economic Evaluation/ Supplemental Legal Review	January 4, 2016
Final Team Concurrence	March 11, 2016
Principal's Briefing (if appropriate)	N/A
Director Level Concurrence	April 7, 2016
Associate/AGC-1 level Concurrence	May 4, 2016
ADA/AOA Approval	June 3, 2016
Issuance	June 7, 2016
Publication	June 17, 2016
Close of Comment period (if applicable)	N/A
Disposition of Comments (if applicable)	N/A

As the Office of Commercial Space (AST) awaits the issuance of the final rule, the FAA has granted waivers to the risk criteria consistent with the Air Force requirements and the proposed rule, on an as needed basis, in order to prevent negative impacts on industry.

Mr. Diaz-Balart #6

Office of Commercial Space Transportation (AST):

FAA AST has cited a lack of resources as its reason for not updating its regulations that govern launch & reentry licensing; however, the lack of updates has required FAA AST to regularly process and issue waivers that, if the regulations are updated, will not be necessary. The waivers for NASA payloads and for the Collective Risk limits are just a few examples of inefficiencies due to outdated regulations.

Question: What is the FAA AST's plan for updating its Part 400 regulations to reflect a performance-based approach?

Answer: The FAA has a number of rulemaking projects underway to improve its regulations. For example, rulemaking projects addressing waivers for NASA payloads and Collective Risk limits are nearing completion. A much larger effort to broadly improve launch and reentry licensing (14 CFR parts 417, 431 and 435) is in the development stage. Accomplishments to date include defining a problem statement, establishing rulemaking objectives, deriving an "Application for Rulemaking" approach and schedule, and assessing the resources required. In addition, AST has identified research projects necessary to bring the effort to a formal rulemaking project stage.

Mr. Diaz-Balart #7

Office of Commercial Space Transportation (AST):

Question: If the FAA AST received the funding level requested by the President, how would AST prioritize updating its regulations and move away from less flexible, prescriptive regulations that inhibit the industry from taking advantage of technological advances and operational efficiency improvements?

Answer: Efforts to update and improve launch and reentry licensing (14 CFR parts 417, 431 and 435) are in the development stage, with the objective of providing more flexible regulations that allow industry to take advantage of technological advances and operational efficiency improvements.

Mr. Diaz-Balart #8

Office of Commercial Space Transportation (AST):

The President is requesting increased funding for FAA AST.

Question: How does FAA AST prioritize the demands on its resources?

Answer: The commercial space industry is growing rapidly, and it is crucial that AST has the resources necessary to protect public health and safety, the safety of property, and the national security and foreign policy interests of the United States. AST's highest priority is to ensure the protection of public safety.

As such, AST resources are dedicated to licensing, permitting, and safety inspection functions in support of launch vehicle operations. Within this process, AST conducts pre-application consultation with every company or entity that approaches the FAA for a license or permit. This consultation process can last months or even years, as it serves to educate these prospective licensees on the applicable regulations and assist them in identifying potential issues as they develop and shape their plans.

Recently, AST has not missed any statutory time limits for issuing licenses (180 days) or permits (120 days). Meeting these requirements is a priority for AST and is a major factor in workload prioritization.

Launch licenses and experimental permit authorizations are just one part of the overall workload of the office and, historically, AST has reprioritized workload by redirecting resources in order to meet statutory timeframes. This has a compounding impact on other activities that generally get deferred, such as pre-application consultations, which is the first step in any license application. Delaying this work directly affects the number of projects in the pipeline and, by extension, the speed with which companies can respond to rapidly changing customer demands.

Additionally, as new, unique, and complex operations and technologies mature, the evaluation of license and permit applications has similarly become more complex and time consuming, requiring additional staff time and resources. For FY 2016, AST will again likely need to reprioritize workload to meet statutory requirements.

From FY 2006 to FY 2015, the number of launch and reentry operations has increased by 200 percent. During that same period, the number of authorizations provided by FAA to the commercial space industry has increased by 450 percent, and the number of safety inspections has increased by 725 percent. Due to resource constraints and staffing that has increased by only 42 percent, AST continues to be challenged to ensure that all statutory obligations are met while providing the support the industry needs to continue its evolution and growth.

The President's FY 2017 Budget Request for AST includes an increase of $2,026,000 over the FY 2016 appropriated level. Of this amount, $723,000 is for discretionary adjustments to provide for 13 new hires that would increase AST staffing levels by 13 percent over FY 2016.

Mr. Diaz-Balart #9

Office of Commercial Space Transportation (AST):

Question: Are reentry launch licensees prioritized first?

Answer: Yes. Since FY 2006, the number of launch and reentry operations has increased by 200 percent. During that same period, the number of authorizations provided by AST to the commercial space industry has increased by 450 percent, and the number of safety inspections has increased by 725 percent. Due to resource constraints and the fact that staffing has increased by only 42 percent, AST continues to be challenged to ensure that all statutory obligations are met while providing the support the industry needs to continue its evolution and growth.

Mr. Diaz-Balart #10

Office of Commercial Space Transportation (AST):

Question: How are resources divided among its divisions - AST–100, 200, etc.?

Answer: The Operations account funds the salaries of the staff in the various AST divisions as well as the Office of the Chief Engineer. The five divisions include Space Transportation Development (AST-100), Licensing and Evaluation (AST-200), Regulations and Analysis (AST-300), Safety Inspection (AST-400), and Operations Integration (AST-500). These divisions are collectively responsible for supporting the full lifecycle of commercial space transportation operations from initial discussions to post-operations support. Estimated FY 2016 funding for the five AST divisions and the Office of the Chief Engineer are detailed in the chart below.

Division	FY 2016 Planned Budget*	FY 2017 Planned Budget*
AST-1	$1,947,892	$2,169,601.65
AST-3	$2,251,888	$2,508,198.44
AST-4	$1,736,889	$1,934,582.43
AST-100	$3,377,570	$3,762,005.96
AST-200	$2,508,097	$2,793,568.63
AST-300	$2,218,499	$2,471,008.54
AST-400	$1,919,532	$2,138,013.87
AST-500	$1,839,633	$2,049,020.49
Total, AST	**$17,800,000**	**$19,826,000.00**

* Estimates for FY 2016 are extrapolated from FY 2015 actuals.

AST-1 is responsible for the executive leadership, strategic planning, and policy. AST-3 is responsible for administrative and management support including resource planning and management, and international affairs. The Office of the Chief Engineer (AST-4) is responsible for the planning and execution of AST's research and development portfolio, safety management systems, technical databases, statistical tracking, and technical inputs to regulatory matters. AST-100 is responsible for airspace and spaceport integration, environmental reviews, launch and reentry collision avoidance, and monitoring space and terrestrial weather for launch. AST-200 carries out AST's responsibility to ensure public health and safety by licensing commercial space launches, reentries, and the operation of commercial launch and reentry sites. AST-300 develops, manages, and executes the AST rulemaking program and the AST tools and analysis program. AST-400 conducts inspection activities for FAA regulated commercial space operations. AST-500 integrates operational related functions that cut across AST divisions to ensure cohesive AST regulatory product and service delivery.

Existing staff levels and the collaborative nature of AST's work requires division staff to support multiple functions in addition to their primary role. As an example, staff that perform license evaluations as their primary role also provide direct support for pre-application consultation activities. This crossover among the various divisions requires staff resources to be shared and coordinated. The timely approval of a license or permit has a direct correlation to the completeness of the application once an applicant moves to the evaluation phase. This first step in the licensing process is crucial to ensuring the evaluation phase operates efficiently. As this phase begins to incur delays, so too will the evaluation phase. For these reasons, resource reductions to any particular division may result in inefficiencies and delayed work on licensing and safety evaluations.

In FY 2016, funding from the Facilities & Equipment (F&E) account will be used for contract support for the development of the Space Data Integrator (SDI) System through Mission Analysis and Investment Analysis phases of the Acquisition Management System (AMS). These resources will be used to undertake the activities that support the integration of commercial space transportation operations into the National Airspace System (NAS). The AST-100 division is the only recipient of this funding and there is not any AST federal staffing supported from the F&E account.

The Space Data Integrator System will safely reduce the amount of airspace within the NAS that is necessary for commercial space operations. SDI will allow the FAA to more efficiently release blocked airspace within the NAS for aviation users and automate the procedures air traffic controllers use for commercial space transportation operations.

In FY 2016, the Research, Engineering and Development (RE&D) account will fund additional AST research in areas such as the safe and efficient integration of commercial space launch activity into the NAS, advanced safety assessments methods, advanced vehicle safety technologies, and safety factors for high utilization reusable vehicles.

Mr. Diaz-Balart #11

Office of Commercial Space Transportation (AST):

Question: To what extent would it be helpful for the FAA AST to have requirements such as those in 14 CFR Part 139, for airports before it can consider an application for a spaceport?

Answer: The FAA's existing requirements for licensing the operation of launch sites or "spaceports" are provided in 14 CFR Part 420. Because each spaceport is unique, the regulations are rather general, and are mostly performance-based rather than prescriptive.

Since 1996, AST has licensed the operation of 10 spaceports. There are also a number of other potential applicants that have expressed an interest in submitting applications in the future. The 10 licensed spaceports include:

- California Spaceport at Vandenberg Air Force Base;
- Spaceport Florida at Cape Canaveral Air Force Station;
- Mid-Atlantic Regional Spaceport at Wallops Flight Facility in Virginia;
- Mojave Air and Space Port in California;
- Kodiak Launch Complex on Kodiak Island, Alaska;
- Oklahoma Spaceport in Burns Flat, Oklahoma;
- Spaceport America near Las Cruces, New Mexico;
- Cecil Field in Jacksonville, Florida;
- Houston Spaceport at Ellington Airport in Houston, Texas; and
- Midland International Air and Space Port in Midland, Texas.

Every spaceport license application requires an environmental review. Similar to launch license or permit applications, the spaceport license reviews can be complex and resource intensive, requiring specialized expertise in a number of resource areas including air and water quality, endangered species, noise, historical, archeological, and cultural resources. They also require field surveys, carefully orchestrated consultations with multiple Federal and state agencies, tribes, and nongovernmental organizations, as well as multiple public meetings and other opportunities for the receipt and disposition of public comments.

Although the FAA could decide to develop additional spaceport requirements at some point in the future, it is important to ensure that such requirements would not limit the use of new technologies or alternative ways of doing business that have the potential to increase safety and efficiency or lower the cost of operations.

Mr. Diaz-Balart #12

Space-Based ADS-B

Question: Can you assure this Committee that FAA will be using space-based ADS-B to provide aircraft with reduced 15/15 nautical miles separations in 2018 at the same time neighboring foreign air navigation service providers are?

Answer: Currently, the FAA leads the way in providing oceanic separation services, and has provided 30/30 nautical mile separation since 2013 while its neighbors require approximately 80/60 nautical mile separation. The FAA also has enhanced capabilities beyond its neighbors, including user-preferred routing, which increases efficiency, and 15/15 nautical mile separation for aircraft equipped with ADS-B or ADS-C during climbs.

Additionally, the FAA has made earlier investments to advance Space-Based ADS-B. For example, the FAA is planning to reach an Initial Operating Capability (IOC) for processing Space-Based ADS-B on the Advanced Technologies and Oceanic Procedures (ATOP) automation system at the New York Air Route Traffic Control Center (ZNY) in November 2018. This means the ATOP system will be able to receive and process Space-Based ADS-B data in 2018 and controllers will use the data for conformance monitoring.

This decision to fund the initial development of this interface (processing Space-Based ADS-B data on ATOP) now versus waiting until the ICAO approval (expected in 2018) for the reduced oceanic 15/15 nautical mile separation safety case will condense the overall schedule.

This also ensures the ATOP system, which is undergoing an unrelated technology refresh, can be modified to account for this new projection of traffic volume from Space-Based ADS-B coverage. Furthermore, the investment decisions will establish the necessary baseline requirements document, CONOPS and initial benefits modelling in parallel with Reduced Oceanic Separation (ROS) (safety cases, separation standards, interfaces, and operational testing).

However, changing oceanic separation standards requires ICAO coordination and collaboration with the international community. These types of changes cannot be done unilaterally and the 15/15 nautical mile separation has not yet been approved through ICAO. The FAA is a part of the ICAO standards working groups and understands that at the present time, the tools and safety case work have not been completed for those Air Navigation Service Providers (ANSPs). The ANSPs are planning very limited (scenarios, routes and conditions) operational trials in 2018.

The FAA is currently performing analysis to determine if there is sufficient benefit to justify the financial investment and changes required for the 15/15 nautical mile separation. In addition to the ICAO standards development, the FAA is conducting a safety analysis necessary for the United States approval of the standard. In addition to the business and safety analysis, there are upgrades needed to the FAA automation platforms, procedures, and training that will also need approval.

In short, providing these services is a costly undertaking, and the FAA does not typically make such a large-scale investment decision and award acquisitions without an approved business case and confidence in the approval of the associated safety cases. For these reasons, the FAA is not ready to make assurances that we will be using Space-Based ADS-B to provide aircraft with reduced 15/15 nautical miles separations in 2018, or in any particular year, without a demonstrated safety case and business case.

Mr. Diaz-Balart #13

Space-Based ADS-B

In both FY 2015 and FY 2016 this Subcommittee provided funding and clear direction that FAA be capable of managing oceanic traffic, particularly in the busy North Atlantic, with reduced 15/15 nautical separations in 2018, at the same time neighboring foreign air navigation service providers are.

Question: Can you assure us these funds are being spent to meet this 2018 goal and aircraft entering US oceanic airspace will not be told to slow down?

Answer: The FAA is using the specified funding to advance Space-Based ADS-B. The funding provided is supporting the progress to develop the standards, design and automation modifications.

To date, the FAA has met all of the planned Space-Based ADS-B schedule milestones and will continue to work diligently through all the necessary processes to support a safety case, separation standards work, and all cost and benefits estimating required for investment analysis.

In regards to the concern around delaying aircraft entering the U.S. airspace, the FAA does not believe there is risk of this occurring in 2018. As mentioned before, current airspace capacity and tools meet the demand in the given oceanic airspace. The tools and procedures used by the FAA (user-preferred routing, dynamic use of altitudes along routes, in trail climbs at 15/15 nautical mile separation) meet or exceed capacity constraints in the given airspace. The FAA believes this capacity far exceeds the airspace demand for the given traffic volume and greatly exceeds the neighboring ANSP's total capacity – before and after their planned limited operational trials in 2018. Furthermore, the FAA's airspace design, automation tools and procedures afford great flexibility in continuing to provide exceptional air traffic service in this airspace.

The FAA believes there is great promise in this technology and is optimistic that the safety and business cases will prove to be valuable for the U.S. airspace. This technology will become increasingly important for the oceanic airspace as air traffic demand rises in 2020 and beyond. Additionally, outside of oceanic airspace there are potential benefits in using this technology in locations where ground-based radio stations are too costly or complex to serve additional needs. As such, the FAA will continue to explore this technology and make it a top priority for investment consideration.

Federal Aviation Administration
Fiscal Year 2017 Questions for the Record
Full Committee Chairman Harold Rogers
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Rogers #1

Drones

There have been numerous reports in the press that Unmanned Aircraft Systems, also known as drones, have been interfering with commercial flights at major airports. Last year language was included in the omnibus report encouraging a pilot program at a commercial airport to test technology that could detect a drone and its operator without interfering with existing airport technology systems. I understand the test project was completed.

Question: What were the results of the test project? What were the lessons learned from this activity?

Answer: The FAA entered into a Pathfinder agreement with CACI International Inc. in October 2015. CACI's UAS detection system was installed and tested at Atlantic City Airport (ACY) during January and February 2016. A total of 141 tests were conducted – 72 with a UAS on the ground and 69 with different, small UAS in flight. Engineers from the FAA, CACI, and the Department of Homeland Security will develop a final report of findings by August 2016.

From this initial evaluation, the FAA learned processes and procedures for the deployment of a Radio Frequency (RF) sensor system in an operational airport environment, as well as the initial minimum performance standards for UAS detection systems at airports.

Mr. Rogers #2

Drones

Question: As drones become more prevalent, how will FAA promote preventative and protective drone detective measures at airports across the country?

Answer: The FY 2016 Consolidated Appropriations Act directed the FAA to assess the feasibility of integrating UAS mitigation technology with airport operations to detect, identify, and track both the UAS and operator, as well as review techniques to defeat an errant or hostile UAS without causing any collateral damage in the airport environment. To support this detection effort and mitigation technology review, the FAA is co-leading an Interagency UAS Airport Detection Strategy Working Group with the Department of Homeland Security (DHS), which is the lead agency for research and development of counter-UAS technology. This interagency group currently includes Department of Defense (DOD), Federal Bureau of Investigation (FBI), and U.S. Secret Service.

Reviews of current DOD and DHS assessments of technologies and systems are underway, and the group is coordinating operational evaluations in five commercial airport environments. The FAA is also meeting with members of the UAS detection manufacturing community to review commercial-grade UAS detection systems and evaluate their potential for testing in airport environments.

Federal Aviation Administration
Fiscal Year 2017 Questions for the Record
Congressman Evan Jenkins
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Jenkins #1

Yeager Airport RSA

It has been about a year since West Virginia was battered by storms last March. Many West Virginians have been adversely impacted by the flooding and erosion. Yeager Airport in Charleston was also affected by these storms when its Runway Safety Area collapsed completely. That incapacitated their Engineered Materials Arresting System which provides a barrier for aborted takeoffs.

This safety issue is paramount for people in the air and on the ground. As of now there is no protection to guard against flights that would need to abort their takeoff and the incident has caused many issues on the ground where homes have been affected by the earth movement. The FAA helped construct and engineer the original RSA, but has now indicated they will not help fund the reconstruction of the RSA and the EMAS system.

Question: Given the state of runway #5 at the largest airport in West Virginia, can the FAA please provide justification for why they will not help contribute to the rebuild?

Answer: This is a very complicated and unusual situation. Although the slope failure occurred after a period of severe weather, there was some earlier evidence of structural problems. The airport has initiated litigation to determine whether the engineer and/or contractor have any culpability in the collapse. The litigation focuses on sufficiency of the engineering design, the quality of construction, and adequacy of the construction testing, inspection and monitoring. It is also important to recognize that professional engineers and contractors maintain liability insurance for precisely this sort of situation.

Federal Airport Improvement Program (AIP) funds cannot pay for the same improvements twice, unless the facility has reached the end of its useful design life. The FAA will not generally replace an existing EMAS system until it reaches its expected useful service life, which may range from 10-20 years.

Even if the courts ultimately determine that the damage was primarily the result of severe weather, the FAA does not have a statute-based program comparable to FEMA's Disaster Relief Fund or the FHWA's Emergency Relief Program, both of which provide specific funding for natural disasters or catastrophic failures. In rare circumstances, Congress has enacted legislation that provides for AIP grants to help airports recover from national emergencies. In 2005 for example, emergency legislation was enacted (P.L. 108-324) providing an additional $25 million for AIP to fund emergency airport capital costs to repair or replace public use facilities damaged by hurricanes Charley, Frances, Ivan, and Jeanne.

The FAA has not ruled out eventual financial assistance in this matter, particularly if the airport proposes a solution that has better long-term viability. However, the FAA expects airports to exhaust all other legal remedies and resources first, and in this case that includes the litigation.

Between FY 2003 and FY 2008, the FAA provided more than $16 million in AIP funding to improve the airport's RSAs, along with more than $1 million in Passenger Facility Charge (PFC) revenues.

Mr. Jenkins #2

Yeager Airport RSA

Question: Can the FAA please provide alternatives to address the immediate safety concerns of the airport?

Answer: The immediate concerns regarding safe operation of landing and departing aircraft on Runway 5/23 were addressed by the airport and the FAA. The FAA is confident that Runway 5/23 is safe. The Runway 5 threshold has been temporarily displaced by 578 feet and declared distances have been adjusted (for takeoff distance available, landing distance available and accelerated stop distance available). These actions allow the safe utilization of Runway 5/23.

There are no other operational restrictions on Runway 5/23 (e.g., no weight penalties or aircraft restrictions). The FAA continues to work closely with local authorities as it relates to both the cause(s) of the slope failure and EMAS collapse, and the full range of technical options for re-establishing the Runway 5 safety area.

Mr. Jenkins #3

Huntington Tri-State Airport

Tri-State Airport in Huntington, WV has been plagued by ongoing infrastructure issues. It's one of the few airports in the region to see growth over the last decade, yet unfortunately its needs far outweigh the resources available.

The airport needs to finalize the rehabilitation of its apron. It also must redevelop its terminal and construct a parking garage, a project for which they previously applied for a TIGER grant but were unsuccessful. With federal dollars going out the door to help big cities all the time, it seems like Huntington is struggling to get its fair share of support from DOT and the FAA.

Question: Would you please describe the level of engagement the FAA has with Huntington Tri-State airport on these ongoing infrastructure issues?

Answer: The FAA's Airports District Office (ADO) has been working with HTS in their ongoing development of their airport capital improvement program, which includes the proposed apron rehabilitation and the terminal projects.

Apron Rehabilitation: HTS is proposing to rehabilitate their terminal apron in FY 2016. In addition to using their available entitlement funds, the apron project is expected to compete well for FY 2016 discretionary funding. The FAA has participated in coordination efforts with the Sponsor on pre-grant activities that include project scoping and environmental review eligibility determinations.

Terminal Improvements: The FAA has issued three grants since FY 2009 that address terminal improvements at HTS. Improvements included HVAC renovations and reconfiguration of the non-sterile area. HTS' 5-year airport capital improvement program (ACIP) does not indicate any future work for the existing terminal.

Terminal Center: The FAA has participated in initial discussions with HTS concerning a proposed terminal center that would include a parking garage, prescreening area, administrative space and commercial space. While these discussions have been very preliminary to date, the FAA has conveyed to HTS that the large majority of the proposed improvements are not eligible projects under the AIP. The FAA is available for further discussion on what portions of the improvement are eligible under either the AIP or the PFC programs.

Mr. Jenkins #4

Huntington Tri-State Airport

Question: Could you list the grant programs that FAA has available for improving the much-needed projects previously mentioned for Huntington Tri-State airport?

Answer: The FAA administers two funding programs that are available to HTS to fund development needs at the airport: the Airport Improvement Program (AIP) and the Passenger Facility Charge (PFC) program. HTS is presently utilizing both of these programs to fund their development needs.

AIP: Since FY 2005, the FAA has provided Huntington Tri-State airport more than $40.5 million under the AIP, including $25.7 million in discretionary funds. Some notable projects include:

- $8.9 million to rehabilitate or improve runways.
- $11.4 million to rehabilitate or improve taxiways.
- $2.9 million to rehabilitate or improve the airport terminal.

HTS has received an average of about $1.3 million in annual passenger entitlement funds between FY 2013 and FY 2015. This value will vary year to year based on actual passenger enplanement counts.

In addition to entitlement funds, projects at HTS may compete for limited discretionary funds. The FAA makes discretionary funding decisions using a National Priority Rating system among several other factors.

PFC: HTS currently has an approved PFC application in place for a total amount equaling $6,162,682. Approved projects under this application include sealing Runway 12/30, environmental assessment for terminal area development, terminal area plan, acquire snow removal equipment, and rehabilitation of Taxiway A.

Federal Aviation Administration
Fiscal Year 2017 Questions for the Record
Ranking Member David Price
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Price #1

Maintenance of Legacy Systems and Facilities

Question: What are FAA's most pressing state of good repair needs?

Answer: In regards to legacy systems, the FAA's highest priority is to ensure the National Airspace System (NAS) maintains optimal operations and minimizes risk to employee and public safety. This is achieved through maintaining and sustaining system performance, which ensures systems provide the services necessary to safely meet the public's needs. When evaluating which legacy systems require repair, the FAA will prioritize based on a series of factors: restoration, capability, capacity, replacement options, cost, and system performance.

For facility infrastructure, the FAA's most pressing needs are to reduce risk to employee safety and operations in the NAS. This is done by improving facility conditions (measured by the facility condition index [FCI]); abating systemic issues such as repair and replacement of fuel storage tanks, chillers, and guyed towers; and reducing deferred maintenance not included in the FCI calculation. To prioritize these needs, the FAA ranks pending projects based on criteria such as employee safety, facility criticality, facility condition, systemic issues, building component criticality, and environment.

Mr. Price #2

Maintenance of Legacy Systems and Facilities

Question: What are FAA's plans to replace or decommission older facilities?

Answer: The FAA plans to replace or decommission older facilities such as Non Directional Beacons (NDB) and Tactical Air Navigation (TACAN) systems when operational needs are no longer being met by the existing facility or the service is no longer required. The FAA conducts an analysis to determine whether a service may be provided by another facility or is no longer needed. An analysis may be conducted as we see trends in the underutilization of equipment, new equipment with equal or higher capabilities, parts not being manufactured for equipment, or upon request.

A schedule of the Tactical Air/Nav System (TACR) to Distance Measuring Equipment (DME) installation follows.

TACR ID	CITY	STATE	Start Date	Status
TBD	THIBODAUX	LA	10/22/2015	TACR-to-DME Installation completed.
PVD	PROVIDENCE	RI	11/19/2015	TACR-to-DME Installation completed.
OSI	WOODSIDE	CA	12/3/2015	TACR-to-DME Installation completed.
PGS	PEACH SPRINGS	AZ	12/9/2015	TACR-to-DME Installation completed.
SVC	SILVER CITY	NM	12/14/2015	TACR-to-DME Installation completed.
AVE	AVENAL	CA	12/16/2015	TACR-to-DME Installation completed.
ELD	EL DORADO	AR	12/22/2015	TACR-to-DME Installation completed.
GHM	GRAHAM	TN	12/29/2015	TACR-to-DME Installation completed.
PYE	POINT REYES	CA	1/29/2016	TACR-to-DME Installation completed.
PZD	ALBANY	GA	2/9/2016	TACR-to-DME Installation completed.
LIN	LINDEN	CA	2/22/2016	TACR-to-DME Installation completed.
AHN	ATHENS	GA	3/15/2016	TACR-to-DME Installation completed.
LRP	LANCASTER	PA	3/21/2016	TACR-to-DME Installation completed.
TNV	NAVASOTA	TX	3/21/2016	TACR-to-DME Installation completed.

TACR ID	CITY	STATE	Start Date	Status
ALO	WATERLOO	IA	3/28/2016	TACR-to-DME Installation completed.
OAK	OAKLAND	CA	3/28/2016	TACR-to-DME Installation completed.
ARD	YARDLEY	PA	4/11/2016	TACR-to-DME Installation completed.
VUH	GALVESTON	TX	4/11/2016	TACR-to-DME Installation completed.
GRI	GRAND ISLAND	NE	4/18/2016	TACR-to-DME Installation completed.
SNY	SIDNEY	NE	5/2/2016	Project materials on order
LOZ	LONDON	KY	5/9/2016	Project materials on order
SEG	SELINSGROVE	PA	5/9/2016	Project materials on order
SRQ	SARASOTA	FL	5/9/2016	Project materials on order
FLW	FELLOWS	CA	5/16/2016	
RHI	RHINELANDER	WI	5/16/2016	Project materials on order
FAR	FARGO	ND	6/6/2016	
SAU	SAUSALITO	CA	6/6/2016	Project materials on order
LMN	LAMONI	IA	6/20/2016	
ELN	ELLENSBURG	WA	8/8/2016	
CON	CONCORD	NH	August, 2016	
SHB	SHELBYVILLE	IN	July, 2016	
JST	JOHNSTOWN	PA	September, 2016	
OSW	Oswego	KS	TBD	

Mr. Price #3

Maintenance of Legacy Systems and Facilities

Question: How does the Agency prioritize system or facility decommissioning?

Answer: The decommissioning of National Airspace System (NAS) equipment or systems may trigger the need to dispose of real property or facilities associated with the decommissioned equipment. Decommissioning of equipment is a two stage process.

The first stage is to identify the equipment; this is also referred to as the candidate site. Part of what is considered in identifying a candidate site includes but is not limited to: impact to the Next Generation Air Transportation System (NextGen); equipment lifecycle; risk to the NAS; use of equipment by private citizens and other government entities; cost; and benefits. Notices may be sent to the Federal Register, local citizens, corporations/companies (e.g., airport); government entities utilizing the equipment (e.g., military, National Weather Office); and internal organizations. Feedback is received and analyzed and a decision is made on whether the candidate site can be decommissioned.

Once the candidate site has been approved, the second stage of decommissioning begins. During this stage, the local office engages with various internal/external organizations to coordinate the decommissioning effort with all stakeholders and take the appropriate steps to ensure a smooth transition.

The FAA then prioritizes facility disposal projects by applying an infrastructure portfolio prioritization process to determine which projects receive capital funds for execution. The infrastructure prioritization process utilizes a model that applies scores to projects based on their contribution to the FAA mission, infrastructure condition, and whether the project addresses employee safety, systemic issues, physical security, or environmental concerns. Scoring of projects enables the FAA to identify highest priority capital fund projects for disposal of real property associated with decommissioned equipment.

Mr. Price #4

FAA Regulations Regarding Deployable Flight Recorders

Currently, the FAA has inconsistent regulations regarding Automatic Deployable Flight Recorders. Since 2007, FAA has had approved Technical Standard Orders (TSOs) governing how Automatic Deployable Flight Recorders must be manufactured for use on U.S. commercial passenger aircraft (TSO 123c - manufacturing requirements for Cockpit Voice Recorders, and TSO 124c - manufacturing requirements for Flight Data Recorders). However, the corresponding Federal Aviation Regulations (FARs) that provide the requirements for Cockpit Voice and Flight Data Recorder installation and certification on commercial aircraft have never been updated to reflect the allowed use of Deployable Recorders. Equivalent European updates have been underway and are near completion.

Updated aviation regulations could provide a consistent and formalized path for all aircraft original equipment manufacturers (OEMs) to certify FAA TSO approved Deployable Recording equipment on their aircraft. While it is possible for an OEM to prepare an "Equivalent Level of Safety (ELS)" proposal (waiver) to the existing rules, this seems like an unnecessary step for equipment that the FAA has already approved for use on commercial aircraft, and could add schedule delays, costs, and risk to an aircraft or equipment certification program. Furthermore, an ELS does not provide an OEM with the assurance that a TSO obtained under the "ELS"/waiver approach will be acceptable across different models and platforms, nor does it provide the OEM with assurance that the certification will be grandfathered if there is a future FAA determination to make formal changes to the rules.

Question: Does FAA have plans to update the FARs to harmonize them with the FAA-approved TSO's for flight data and cockpit voice recorders, which already include Deployable recorders?

Answer: The FAA does not have plans to update the FARs to include deployable recorders. The FARs are performance-based and do not explicitly prohibit deployable recorders from meeting the FARs. Flight data recorders are used by the National Transportation Safety Board (NTSB) in its investigations. Although deployable recorders are not specified by the NTSB or noted in the FAR, the FAA stands ready to support an applicant who chooses to install deployable flight recorder technology on aircraft.

Mr. Price #5

FAA Regulations Regarding Deployable Flight Recorders

Question: Since the European Aviation Safety Agency and European Union have already acted to update their equivalent regulations for the safe installation and certification of Deployable recorders on commercial aircraft, does this provide the FAA with an opportunity to harmonize updates with our European counterparts?

Answer: The FAA works with EASA, Time Critical Logistics Alliance (TCLA) and other regulatory authorities to harmonize regulations. In doing so, the FAA encourages adoption of performance-based regulations rather than technology-specific solutions, such as deployable flight recorders.

At this time, the FAA is evaluating options for rulemaking to improve aircraft tracking and underwater recovery. The FAA's goal is to enhance global aircraft tracking and the post-accident end-to-end search and recovery process. Any rulemaking project will be coordinated and harmonized with EASA, ICAO, and other regulatory authorities to ensure one set of standards from airspace to airspace.

Federal Aviation Administration
Fiscal Year 2017 Questions for the Record
Congressman Mike Quigley
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Quigley #1

Relief for My Constituents

9 USC Section 40103 provides the FAA with the statutory authority to "relieve and protect the public health and welfare from aircraft noise" through "regulations…to control and abate aircraft noise." This past November, 50,000 residents complained about the increase in noise around O'Hare. The FAA's own data shows that noise will increase dramatically when the O'Hare Modernization Program is completed. Yet the FAA has offered little relief for my constituents.

Question: What actions can the FAA COMMIT to taking to protect residents and their property around O'Hare?

Answer: Reducing noise at the source is the single most effective way to reduce noise impacts on communities. The FAA invested a total of $125 million in the Continuous Lower Energy, Emissions and Noise (CLEEN) Program between 2010 and 2015, and has planned to invest another $100 million to CLEEN II to develop aircraft and engine technologies that reduce noise, emissions, and fuel burn. Past improvements in aircraft technology allowed the phase-out of the noisiest aircraft (designated Stage 1 and Stage 2). As of December 31, 2015, all civil jet aircraft, regardless of weight, must meet quieter Stage 3 or Stage 4 noise standards to operate within the contiguous United States.

Community noise can be further reduced through operational noise abatement measures (take-off, climb-out and descent procedures, and preferential runway use programs and routes). These measures—collectively referred to in many places as "Fly Quiet" programs—are developed by airport and aircraft operators and communities and implemented by FAA at the request of the airport. The FAA committed in the Record of Decision for the O'Hare Modernization Program to give consideration to suggestions for changes in the Fly Quiet Program developed by the O'Hare Noise Compatibility Commission (ONCC) and requested of the FAA by the City of Chicago.

The FAA provides federal funding and technical guidance to airport sponsors to mitigate noise (for example, by sound-insulating homes and schools). Working with the City of Chicago (as the airport sponsor for O'Hare) and the ONCC, the FAA has provided approximately $187 million in Airport Improvement Program grants from FY1984 through FY2013 and approved $596 million in Passenger Facility Charge (PFC) funding for school sound insulation from FY1993 through FY2013. The FAA has also provided approximately $97 million for residential sound insulation to reduce the impacts of aircraft noise to communities specifically impacted by the O'Hare Modernization Program.

Mr. Quigley #2

Relief for My Constituents

Question: Are there current or planned FAA studies on the health and psychological impacts of noise?

Answer: The FAA has a robust noise research roadmap, which examines multiple facets of aviation noise. The FAA is currently conducting research to understand the impact of aviation noise on cardiovascular health and sleep disturbance. In addition, the FAA, through the National Academies of Sciences, Medicine, and Engineering, Airport Cooperative Research Program, is conducting research on the impact of aviation noise on children's learning.

Mr. Quigley #3

Relief for My Constituents

I support lowering the DNL, but I question whether the average day and night level (DNL) is the right metric. My constituents don't perceive airplane noise in averages, Mr. Huerta, they're feeling the effects in real time.

Question: When it comes to noise mitigation, shouldn't the FAA also take into consideration things like the physiological impact of concentrated, extended noise and the impact of low frequency noise?

Answer: The FAA takes into consideration the latest scientific research on noise impacts in developing policy and guidance for noise mitigation. The FAA also conducts research in the area of physiological effects of noise such as health impacts and sleep disturbance due to aviation noise, and will use the results of that research to further refine and enhance mitigation strategies.

Mr. Quigley #4

FAIR Allocation in Runways

The FAA recognizes that aircraft noise issues can be highly technical and complex. The Federal Aviation Administration (FAA) pursues a program of aircraft noise control in cooperation with the aviation community.

The FAA's primary mission is to ensure the safety and efficiency of our nation's navigable airspace. The agency does not have the authority to prohibit aircraft overflights of a particular geographic area unless the operation is unsafe, or the aircraft is operated in a manner inconsistent with Federal Aviation Regulations. In order to handle high air traffic demands, runway configurations are used in accordance with runway selection criteria. Air Traffic's runway selection is based on several factors which include the following: runway availability, wind, weather, operational efficiency, and noise considerations.

Question: Since safety is a primary mission of the FAA, and given the frequency of crosswind events at O'Hare, do the 14/32s which include a 9600' x 200' runway provide a wider margin of safety for larger aircraft than the remaining 4R/22L at 8000' x 150'? Additionally, would the capacity and mitigation of delays at O'Hare in these crosswind events be better served with the 14/32s?

Answer: Based upon an extensive review of historical wind data specific to Chicago O'Hare International Airport, the combination of the six parallel east/west runways and the two northeast/southwest runways (Runways 4R/22L and 4L/22R) provide nearly 100 percent coverage for all wind conditions at O'Hare. The FAA planning guideline is to examine additional runway orientations when wind coverage is below 95 percent.

Based on this review the City of Chicago Department of Aviation (CDA) proposed the airfield configuration currently under construction and approved by the FAA in the 2005 Record of Decision (ROD). That configuration eliminates the northwest/southeast runways (Runways 14L/32R and Runway 14R/32L), in part, because these runways are not needed for wind coverage at O'Hare.

The O'Hare Modernization Program Environmental Impact Statement (OMP EIS) also considered the closure of the northwest/southeast runway orientations (Runways 14L/32R and Runway 14R/32L) to reduce the number of runway intersections and intersecting flight paths.

When operating with intersecting flight paths under today's Air Traffic Control (ATC) requirements, ATC must increase separation between aircraft to ensure safety. This, in turn, reduces airfield efficiency. As planned, the OMP removes nearly all such aircraft arrival and departure interactions. Physically intersecting runways also introduce safety risks into the operation of O'Hare. The intent of the OMP was to minimize these risks by using independent parallel runways.

Because the operations on both14L/32R and 14R/32L are impacted by either a physical intersection or intersecting flight path with two primary arrival runways, these runways do not provide an optimal configuration for enhancing efficiency at the airport. The parallel runways provide optimal safety and efficiency configurations for the airport and will continue to be used at O'Hare to meet the operational needs at the airport. Since the existing parallel runways and two northeast/southwest runways (Runways 4R/22L and 4L/22R) provide nearly 100 percent coverage for all wind conditions, under current FAA requirements the northwest/southeast runways (Runways 14L/32R and Runway 14R/32L) do not increase capacity and would only be used in extreme weather conditions.

Mr. Quigley #5

FAIR Allocation in Runways

Question: Since noise is identified as a potential constraint on aviation growth, shouldn't runways like 14R/32L and 14L/32R with flight paths over compatible land use be preserved and prioritized for noise mitigation?

Answer: Addressing the noise concerns associated with the implementation of the O'Hare Modernization Program is a complex process that must consider the operational needs of the airport as well as any benefits in noise reduction. Even if Runway 14L/32R and Runway 14R/32L were to be preserved and reopened, it would result in shifting noise. In addition, the FAA would expect these runways to be used sparingly, for two primary reasons: 1) the operations on both 32R and 32L are impacted by either a physical intersection or intersecting flight path with two primary arrival runways, and therefore the ability to independently utilize these runways is severely constrained; and 2) O'Hare's multiple parallel east-west runways provide a much greater degree of safety and operational efficiency.

The O'Hare Modernization Program calls for the closure of these runways since they do not provide an efficiency benefit to the airport. To meet the operational and efficiency needs for O'Hare, the FAA would continue to use the independent parallel runways.

The Chicago Department of Aviation (CDA) is currently working with a number of local communities and stakeholders through the O'Hare Noise Compatibility Commission (ONCC) for O'Hare to consider ways to use the O'Hare runway system to address present-day noise concerns. The FAA will evaluate any proposals put forth by the City as a means to address noise concerns.

Mr. Quigley #6

FAIR Allocation in Runways

Question: Since air quality is identified as a potential constraint on aviation growth, and with new research emerging on Ultra Fine Particles, is the increasing concentration of these pollutants over densely populated areas a risk that can be mitigated with alternate runways configurations including the 14/32s?

Answer: Similar to other ambient air pollutants, Ultra Fine Particles (UFP) are subject to pressures, temperature gradients, and winds when emitted from hundreds of sources in a densely populated urban area, resulting in dilution and mixing in the ambient air from the ground level up to several thousand feet (denoted as the mixing layer). UFP concentrations vary widely across the urban air shed and are dependent upon the strength of the UFP emission rates (mass per time) and the weather conditions. Aircraft produce high-speed, hot exhaust plumes that promote UFP dilution in the ambient air. The same number of takeoff and landings would occur at O'Hare, irrespective of the runway configuration. Relocating the aircraft landings and takeoffs to a different runway end such as the 14/32s does not guarantee UFP mitigation. Effective mitigation is more in the form of source reduction. The FAA has invested a total of $125 million in the Continuous Lower Energy, Emissions and Noise (CLEEN) Program between 2010 and 2015, and has planned to invest another $100 million under CLEEN II to develop aircraft and engine technologies that reduce aircraft noise, emissions, and fuel burn.

Mr. Quigley #7

FAIR Allocation in Runways

Question: Since the increases in air traffic predicted in the next decade could result in recently contracted noise contours growing larger and offset advancements in technology, wouldn't the utilization of the 14/32s serve as a method to mitigate the growth of the noise contour into densely populated areas?

Answer: The FAA has no basis to assume that future noise contours at O'Hare will grow larger than the contours identified in the 2005 Environmental Impact Statement (EIS), which are currently being used to mitigate noise impacts from the implementation of the O'Hare Modernization Program (OMP). The 2005 EIS noise contours assume a higher level of activity than is currently occurring at the airport. This means the noise mitigations efforts cover a broader area of residential areas that provide a buffer for any future growth in activity at O'Hare.

An increase in the number of annual operations at the airport has not correlated to an increase in the size of the noise contour. From a historical perspective, the noise contour has reduced in size even with increases in air traffic. The FAA estimates the number of homes in the 65 DNL noise contour has been reduced by over 90 percent when comparing the 1982 contour to the OMP build-out contour.

Even if both runways were preserved contrary to the OMP, these runways would be used sparingly since they have intersecting flight paths or intersections with the parallel runways at the airport. The low levels of use of these runways have very little influence on the size of the overall airport noise contour.

Mr. Quigley #8

FAIR Allocation in Runways

The movement to the next generation of aviation is possible by a shift to smarter, satellite-based and digital technologies and new procedures that combine to make air travel more convenient, predictable and environmentally friendly. The environmental vision for NextGen is to provide environmental protection that allows sustained aviation growth.

Question: Given the unknown timetable and extent to which NextGen will mitigate noise, and current development and testing of a noise compatibility program at O'Hare utilizing 14R/32L, wouldn't it be in the interest of all stakeholders to evaluate the results of the current mitigation efforts before committing to runway decommissioning?

Answer: The current noise mitigation efforts for Chicago O'Hare focus on residential sound insulation assuming the full build-out of the O'Hare Modernization Program (OMP). The mitigation efforts fully comply with the noise mitigation measures to which FAA committed in the 2005 Environmental Impact Statement (EIS). The 2005 EIS noise contours assume a higher level of activity than is currently occurring at the airport. This means the noise mitigation efforts cover a broader area of residential areas and provide a buffer for any future growth in activity at O'Hare.

NextGen implements the use of satellites for navigation and can offer options that use satellite-based departure routing to avoid noise sensitive areas and focus flights over areas that are more compatible to aircraft noise. Any proposal that changes the flight paths and routing assumed in the 2005 EIS and Record of Decision will require additional study and environmental analysis before implementation. The retention of Runways 14L/32R and 14R/32L is not required to gain the benefits of satellite-based navigation.

Mr. Quigley #9

FAIR Allocation in Runways

<u>Question:</u> In the absence of significant noise and air quality mitigation at O'Hare, is there a risk that operations will need to be capped until future technologies can catch up to projected growth?

<u>Answer:</u> The FAA does not foresee such a risk. The 2005 Environmental Impact Statement (EIS) included extensive analysis of the noise and air quality impacts associated with the implementation and full build out of the O'Hare Modernization Program (OMP). This analysis, which assumed a higher level of activity than is currently occurring at the airport, found that the OMP complied with all air quality laws. The EIS concluded that no air quality mitigation was required for the O'Hare Modernization Program. However, the City chose to implement emission reduction measures as noted in Section 5.20 of the EIS, and Section 9.3 of the Record of Decision (ROD) for the EIS.

The ROD requires that the Chicago Department of Aviation (CDA) complete sound insulation of eligible homes prior to the completion of the OMP (currently scheduled for 2021). To date, the CDA has provided sound insulation to over 5,000 homes in accordance with the ROD. The CDA is planning to complete another 1,000 homes by spring 2017. The FAA has provided approximately $97 million for residential sound insulation to reduce the impacts of aircraft noise to communities specifically impacted by the O'Hare Modernization Program.

Mr. Quigley #10

FAIR Allocation in Runways

Question: In light of the concerns we have raised and until an additional cost analysis study can be addressed for allocation of any additional federal funding for the OMP, we are asking that the FAA use their influence to prevent / delay the demolition of diagonal runway 14L / 32R by the City of Chicago scheduled for early April 2016. We are alleging that additional time is needed to assess the impacts to the communities and that by allowing this demolition to proceed, this would be creating concerns of a magnitude unprecedented in modern aviation history, with impacts to quality of life, health and safety for generations to come.

Answer: The FAA thoroughly analyzed various airfield configurations as part of the O'Hare modernization Environmental Impact Statement (EIS), including configurations that included Runway 14L-32R. That analysis concluded that the Chicago Department of Aviation's (CDA) proposed configuration provided the highest degree of safety and efficiency among all configurations analyzed. Accordingly, the FAA approved that configuration in its 2005 Record of Decision.

In regard to the removal of Runway 14L-32R, the FAA has no basis to prohibit, delay, or object to CDA's intent to remove a runway that is not reflected on the approved end-state Airport Layout Plan for O'Hare.

The question also references the anticipation of "additional cost analysis study...for allocation of any additional federal funding for the O'Hare Modernization Program (OMP)." All Federal grant funding decisions associated with the OMP have been supported by the full extent of analysis required by Federal law. At this time, the FAA anticipates no additional grant funds being devoted to the OMP, beyond the levels already committed.

Mr. Quigley #11

Silent Skies Act

In 2006, the FAA issued regulations requiring all new commercial aircraft designs to meet Stage 4 noise standards but was silent on whether airlines would need to phase out older, louder airplanes or retrofit them with quieter engines.

My bill, the Silent Skies Act, will require the FAA to issue new regulations to phase in the quieter engines at a rate of 25% of an airline's fleet every five years, so that all commercial airplanes meet these quieter standards by 2035 at the latest.

Question: Why hasn't the FAA considered revising its aircraft noise regulations to ensure that these quieter standards are implemented as soon as possible?

Answer: The FAA works with the international aviation community and industry to ensure the latest noise technology and standards are implemented. On January 14, 2016, the FAA published a notice in the Federal Register that proposed rulemaking for a new noise standard, known as Stage 5, which would implement the most recent and most stringent noise standard agreed upon by the international community. The comment period closed on April 14, 2016. This standard was developed after reviewing the current and expected noise reduction technology that will be available in the near future, which determined that there was margin for additional stringency. Market forces will drive the insertion of these aircraft into the fleet, and we believe these forces will gradually influence the transition to a fully Stage 4 and Stage 5 fleet, as these aircraft typically are more fuel efficient than the older Stage 3 fleet. The first-ever aircraft carbon dioxide emissions standard, which the International Civil Aviation Organization recently adopted, will also play a role in transitioning to a more fuel efficient fleet. EPA and FAA are working to incorporate the international aircraft carbon dioxide emissions standard into U.S. regulations before the effective date of 1 January 2020.

Mr. Quigley #12

Air Traffic Controller Staffing Shortages

We currently have far too few controllers in our towers and radar rooms. Chicago Tracon is a perfect example of the staffing issues we are facing nationwide. That facility is currently 30% short of the certified controllers needed and 39% of their certified controllers are eligible to retire. In FY15, the FAA missed its air traffic controller hiring goal for the 5th consecutive year. The number of fully certified air traffic controllers is currently at the lowest level in 27 years.

Question: We've obviously got a serious problem here. What can the FAA do to cut through the bureaucratic red tape that is slowing down the current hiring process?

Answer: To help expedite hiring, the FAA established a "tiger team" that brought together representatives from every FAA organization that shares responsibility for the hiring process. The team obtained approval from the FAA Executive Steering Committee focused on Air Traffic Hiring and Staffing on recommendations that will ensure the pipeline of applicants is current; that the FAA is making data-driven decisions on when and how often it publishes vacancy announcements; and that the FAA properly educates applicants in advance of the requirements for the clearance process.

Because of some of these improvements, the FAA has already on-boarded and scheduled Academy and facility start dates for close to 80 percent of its FY 2016 hiring goal of 1,619 new Air Traffic Control Specialists. The FAA is confident it will bring the remaining applicants on board that it needs to achieve this year's hiring goal.

Mr. Quigley #13

Community Involvement

The FAA's lack of meaningful community education and outreach when completing major overhauls to airspace use, such as the OMP, is astounding. That's why I was proud to secure language in the recent omnibus mandating the FAA update its community involvement manual and implementation plan.

Question: Can you provide us a timeline for when you expect the FAA to complete this update?

Answer: The FAA has updated the Community Involvement Manual and plans to transmit it to the House and Senate Committees on Appropriations, the House Committee on Transportation and Infrastructure, and the Senate Committee on Commerce, Science and Transportation as specified in the 2016 Consolidated Appropriations Act. This manual does not impose any requirements. It offers practices, tools, resources, and techniques as options that can guide FAA practitioners in tailoring community involvement to their specific efforts. Since the manual is internal guidance, the document will not seek public comment or be published in the Federal Register.

The FAA is also developing an initial draft of the implementation plan to enhance community involvement techniques and more proactively address concerns associated with Performance-Based Navigation (PBN) projects.

Mr. Quigley #14

65 DNL Study

Administrator Huerta, it's time for the FAA to change the 65 DNL level used to measure aircraft noise. The metric is outdated and does not accurately reflect the true level of discomfort experienced by my constituents.

Question: What's the status of the FAA's DNL study?

Answer: The FAA is conducting a community resident survey to update the scientific evidence on the relationship between aircraft noise exposure and its effects on communities around airports. The FAA is currently surveying households around certain United States airports. The FAA should complete the surveys by fall 2016, and the analysis of survey results by early 2017. The FAA will use these scientific results to determine if the threshold should be changed. The FAA will coordinate with other federal agencies on this decision and will provide an opportunity for input from the public.

Because DNL 65 dB is the basis for land use compatibility guidelines used across the federal government, the FAA has begun discussions with other agencies through the Federal Interagency Committee on Aviation Noise (FICAN) on the implications of the research. For example, this implicates the criteria for Department of Housing and Urban Development (HUD) and Veterans Affairs (VA) loan eligibility. The current FICAN consists of representatives from the FAA, Department of Transportation (DOT), National Aeronautics and Space Administration (NASA), Department of Defense (DOD), Environmental Protection Agency (EPA), Department of Interior (DOI), and HUD.

Mr. Quigley #15

65 DNL Study

Question: Can you confirm for me that O'Hare, one of the busiest airports in the entire world, was included in the sampling?

Answer: The current research includes sampling communities around twenty airports across the nation. The airports themselves are a sampling to represent all airports across the nation. Releasing the names of the individual airports prior to completion of the survey could bias and invalidate the results of the study. We will provide your office with the names of the twenty airports as soon as the surveys are completed.

TUESDAY, MARCH 15, 2016.

OVERSIGHT AND MANAGEMENT

WITNESSES

HON. CALVIN L. SCOVEL III, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

HON. DAVID A. MONTOYA, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DIAZ-BALART. Let's bring the subcommittee to order. Let me first thank you all for being here. I greatly appreciate your participation. Today, we welcome our Inspectors General from the Department of Transportation, the Honorable Calvin Scovel, and from the Department of Housing and Urban Development, the Honorable David Montoya.

Our subcommittee looks to the Inspector Generals' offices to help us, frankly, deal with and conduct critical oversight to ensure that the people's tax dollars are obviously well-spent, and those dollars go as far as possible to meet our Nation's transportation and housing needs. Obviously, waste, fraud, abuse, misspending of our agencies' dollars is not something that we have high tolerance for. When we have concerns regarding the management and effectiveness within both Departments, we look to your offices.

We look to the work that you all do for the much needed oversight and guidance through a number of audits and investigations to get those agencies back on track, and we thank you for your invaluable work and efforts, and to ensure that all agencies are working as efficiently and effectively as can possibly be.

So, again, thanking you for your service and for the invaluable work that we do, we look forward to your testimony as we make the decisions that will be required to put together the THUD bill for fiscal year 2017. With that, let me recognize our ranking member of this subcommittee, the gentleman from North Carolina, Mr. Price, for his opening statements. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman, and I want to join you in welcoming our two witnesses here today, Mr. Scovel and Mr. Montoya. This oversight hearing is an opportunity for us to examine the key management challenges facing the Department of Transportation and the Department of Housing and Urban Development.

Many of these issues are not new, but renewed efforts to address them remain critical to the success of the agencies as they seek to meet emerging challenges. HUD has made some progress in modernizing its human capital management, financial governance, and its human capital in an efficient manner, and lacks strong internal controls over how it obligates and controls funds.

In addition, the IG has highlighted major concerns about HUD's legacy IT systems and lack of compliance with the Federal Information Security Management Act, which could place large amounts of extremely sensitive personal information at risk. At the Department of Transportation, the IG has identified several priorities for improvement, including the adoption of better acquisition and procurement practices in the development and deployment of NextGen, mitigating the threat to public safety posed by the transportation of hazardous materials, including crude oil and liquefied natural gas and removing high-risk motor carriers from the Nation's roads.

Finally, some challenges are common to both the DOT and HUD, such as developing and sustaining an effective workforce and addressing the broad array of cyber security challenges that pose problems for the Federal Government as a whole. Oversight is a key function of Congress, but it is especially integral to the work of the Appropriations Committee. Making our funding decisions in close conjunction with vigilant oversight ensures that limited Federal dollars are spent wisely.

I look forward to learning more about how HUD and DOT are meeting their management challenges and where they stand to improve. Thanks, both of you, for being here today and thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you very much, sir. And with that, we welcome your opening statements and, anything else we would also later submit to the records, so thank you very much, and you are recognized, gentlemen. Who wants to start? I should look at my notes, but I haven't had a chance to. Mr. Scovel, would you care to start with your opening statement now?

Mr. SCOVEL. Yes, I would.

Mr. DIAZ-BALART. Thank you, sir.

Mr. SCOVEL. Thank you, Mr. Chairman. Chairman Diaz-Balart, Ranking Member Price, members of the subcommittee, thank you for inviting me to testify on DOT's top management challenges for 2016. Addressing these challenges is essential to getting the most from the more than $70 billion DOT spends each year across a range of transportation programs. My testimony focuses on three critical areas: safety, stewardship, and IT security.

The Department, FAA, and industry continue to maintain one of the world's safest aviation systems, but the introduction of unmanned aircraft systems, UAS, creates one of the most significant safety challenges in decades. FAA has approved more than 3,800 commercial UAS to operate in our airspace, and the number of operators is certain to increase once FAA publishes a final rule for small UAS this year. However, FAA has yet to establish standard procedures or training for air traffic controllers to safely manage UAS in the same airspace as manned aircraft. In addition, FAA inspectors lack clear guidance for how to conduct UAS oversight, and FAA lacks formal systems to track and classify the severity of UAS incidents.

Improving highway safety also continues to be a challenge. In 2015, we made 17 recommendations to enhance NHTSA's ability to remove unsafe vehicles from roads. This includes collecting and analyzing more comprehensive vehicle safety data. While NHTSA has taken steps to strengthen its defect investigations, the agency must now effectively implement its planned improvements to ensure automakers promptly identify defects and recall affected vehicles.

Unsafe commercial drivers further threaten the safety of our highways, particularly those who repeatedly violate medical, drug, and alcohol testing requirements and other safety regulations. Of the 272 motor carrier safety cases that OIG's criminal investigators have initiated since 2008, 14 percent involved carriers that were banned from the roads for safety violations, but continued to operate under a new business name.

With regard to stewardship, DOT has opportunities to improve oversight of its investments and assets. For example, we recently reported that FAA awarded a new $727 million contract for controller training without first addressing longstanding issues that we identified in its prior controller training contract, issues that resulted in millions of dollars in cost overruns.

Similarly, last year, we reported FTA had not fully implemented the required processes and internal controls to award and monitor $10 billion in grant funds allotted for Hurricane Sandy relief. Strong risk-based oversight, financial controls, and planning are vital to eliminating fraud and maximizing federal investments.

Sustaining a skilled workforce, DOT's most important asset, also remains a key challenge, particularly as workforce demographics change. For example, 22 percent of DOT's acquisition workforce, not counting FAA, was retirement eligible last year. From air traffic controllers to FAA oversight personnel to vehicle defect analysts, DOT must identify how many staff it needs in these positions and ensure its training programs keep pace with changing technology.

Finally, with regard to IT security, DOT has made major progress in implementing the required use of PIV cards for all employees and contractors. This is a key step in securing access to facilities and systems. However, DOT has been slow to address longstanding cybersecurity weaknesses, such as the lack of effective systems to continuously monitor for threats. The September 2014 fire at a Chicago air traffic control facility also demonstrated the importance of effective contingency planning. Damage from that fire crippled the facility and its systems for 2 weeks, significantly impacting passengers and airlines. Earlier this month, we reported that 5 of the Department's 12 operating administrations were not effectively testing or meeting all requirements for their disaster recovery plans.

The Department has consistently demonstrated its commitment to addressing these challenges, but effective management and follow-through remain imperative. My office will continue to assist the Department as it works to meet these goals.

Mr. Chairman, this concludes my prepared statement. I am happy to answer any questions you or other subcommittee members may have.

[The information follows:]

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Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
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Top Management Challenges Facing the Department of Transportation

Statement of
The Honorable Calvin L. Scovel III
Inspector General
U.S. Department of Transportation

Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee:

Thank you for inviting me here today to discuss the Department of Transportation's (DOT) top management challenges for fiscal year 2016. We report annually on these challenges, as required by Congress and the Office of Management and Budget (OMB). Each year, the Department spends over $70 billion on a wide range of programs to meet its top priority of transportation safety and to maintain and modernize transportation systems. My statement today will focus on the Department's top management challenges, as identified in our November 2015 report,[1] along three cross-cutting areas: (1) addressing new and longstanding safety challenges, (2) continuing diligent stewardship over DOT's critical investments, and (3) enhancing DOT's information technology (IT) security and preparedness. I will also highlight DOT's actions taken to date to address some of these challenges.

SUMMARY

Safety is DOT's top priority, and the Department faces a range of emerging and longstanding safety challenges. These include safely integrating Unmanned Aircraft Systems (UAS) into the National Airspace System (NAS), addressing risks posed by the transport of hazardous materials (hazmat), and removing unsafe vehicles and commercial drivers from roadways. At the same time, DOT must carry out its safety mission within a framework of diligent stewardship over its investments and assets. In particular, continued attention to strengthening the Department's internal controls and risk-based oversight is critical to the efficiency of taxpayer-funded projects to build, repair, and maintain the Nation's surface transportation system. DOT can also do more to reduce risk in its billion-dollar efforts to modernize the Nation's aviation system and to develop and sustain a high-performing workforce. Finally, DOT continues to struggle to secure the 450-plus information systems it uses to conduct business and operate critical transportation systems, ensure continuity of operations, and safeguard systems from insider threats.

ADDRESSING NEW AND LONGSTANDING SAFETY CHALLENGES

Making the Nation's airspace, environment, and roads safer continues to be DOT's top priority. Addressing a number of new and longstanding safety issues we have identified will be critical for DOT to maintain and improve the Nation's transportation safety record. In addition to the new challenges of safely integrating UAS into the NAS, DOT must continue to reduce safety risks in transporting hazardous materials while improving safety on our Nation's roadways.

[1] *Top Management Challenges for Fiscal Year 2016, Department of Transportation* (OIG Report Number PT-2016-005), November 16, 2015. OIG reports and testimonies are available on our Web site: https://www.oig.dot.gov/.

Integrating Unmanned Aircraft Systems Safely Into the National Airspace System

DOT, the Federal Aviation Administration (FAA), and industry have maintained a remarkably safe aviation system, with no fatal passenger accidents involving domestic commercial carriers in over 7 years. However, the growing demand for commercial UAS operations—for purposes ranging from precision agriculture operations to package delivery—presents one of the most significant safety challenges for FAA in decades. Analysts predict that as much as $93 billion will be invested in the technology worldwide over the next 10 years.

The FAA Modernization and Reform Act of 2012 requires FAA to take multiple steps to safely integrate UAS into the NAS. However, FAA and industry have not reached consensus on UAS-specific technology standards that are critical to safe integration. For example, FAA and industry still lack standards to ensure that UAS can automatically detect and successfully maneuver around other aircraft operating in nearby airspace.[2]

FAA also lacks a regulatory framework for UAS integration, which would govern areas such as small UAS (under 55 pounds) operations, beyond-line-of-sight procedures, larger unmanned aircraft systems, and pilot qualifications. FAA currently approves commercial UAS operations only on a case-by-case basis, leveraging an authority granted by Congress to exempt small UAS from certification requirements.[3] So far, FAA has issued over 3,800 exemptions. We are currently reviewing the UAS exemption and safety oversight processes. FAA intends to issue its rule on small UAS operations in late spring 2016—more than a year and a half behind the schedule established in the act. However, several high-profile aspects of UAS use—such as package delivery—will not be covered under the rule, which underscores the need for further regulatory efforts. FAA also has not established standard procedures for safely managing UAS in the same airspace as manned aircraft or an adequate UAS training program for controllers.

As the number of UAS operations continues to grow, safety and oversight will remain a significant concern. According to FAA, reported UAS sightings by pilots have increased significantly, with more than 1,100 reports in 2015, compared to just 238 reported in all of 2014. Some reports indicated safety risks, such as pilots altering the course of their aircraft to avoid UAS. Despite these risks, FAA does not have a formal system to track and classify the severity of UAS incidents. In addition, FAA inspectors still lack clear guidance on how to conduct UAS oversight. FAA reports that, through its recently established registration process, nearly 370,000 operators

[2] While FAA 14 CFR 91.113 describes a pilot's ability to "see and avoid" other aircraft, the UAS community is using the term "detect and avoid" to describe the desired capability of UAS.
[3] These requirements include the steps necessary to obtain an airworthiness certificate, including demonstrating to FAA that the UAS conforms to an approved aircraft design and is in condition for safe operation.

have already registered their unmanned aircraft. The impending rule on small UAS is likely to further increase the number of UAS in our airspace, making UAS oversight an increasingly critical responsibility for FAA's safety inspector workforce.

Strengthening Cross-Modal Efforts To Address Pipeline and Hazmat Safety Risks

A key DOT mission requiring strong cross-modal efforts is mitigating the safety risks posed by transportation of hazmat. From 2010 through 2014, there were more than 3,000 pipeline and 78,000 hazmat incidents in the United States, including about 3,500 rail incidents involving hazmat. These incidents resulted in fatalities and injuries, as well as environmental and property damage. Transportation of hazmat by air also presents serious risks, with more than 70 incidents worldwide between 1991 and 2014 involving lithium batteries in aviation cargo and passenger baggage.[4]

The Pipeline and Hazardous Materials Safety Administration (PHMSA) works to implement robust and timely safety measures for mitigating significant hazmat and pipeline accidents. However, PHMSA has made limited progress towards meeting safety recommendations by the National Transportation Safety Board (NTSB) and congressional mandates. For example, PHMSA has not fully implemented a 2007 NTSB recommendation to require railroads to immediately provide emergency responders with real-time information regarding the identity and location of all hazardous materials on a train. PHMSA also has not fully implemented the safety measures included in the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011.[5] These measures aim to improve operators' assessments of gas pipelines, require leak detection systems on hazardous liquid pipelines, and establish regulations for transporting carbon dioxide by pipeline.

On the aviation front, FAA established the Hazardous Materials Voluntary Disclosure Reporting Program (HM VDRP) in 2006, which allows air carriers to voluntarily disclose violations of hazmat regulations without receiving civil penalties. While this is a good step towards encouraging air carriers to improve hazmat safety, our 2015 report[6] found that FAA lacked an adequate framework of internal controls to effectively carry out HM VDRP. For example, FAA requires air carriers to complete corrective actions for violations they disclose through the program. However, for 31 of the 48 (65 percent) closed cases we reviewed, FAA did not request sufficient evidence to verify that air carriers completed all corrective actions or conducted self-audits as required. In response to our findings, FAA recently issued a new policy to require air carriers to document all corrective actions taken and FAA regions to coordinate with FAA Headquarters on proposed corrective actions and significant HM

[4] These incidents included extreme heat, smoke, fire, or explosions in aviation cargo and passenger baggage.
[5] Public Law No. 112-90 (2012).
[6] *Program and Data Limitations Impede the Effectiveness of FAA's Hazardous Materials Voluntary Disclosure Reporting Program* (OIG Report Number AV-2015-034), March 13, 2015.

VDRP cases. Effective implementation of this policy will require follow through with adequate training and guidance to maximize HM VDRP's potential as a safety program.

Finally, the Federal Railroad Administration's (FRA) enforcement of PHMSA regulations plays a large role in the safety of hazmat transported by rail. In fiscal year 2015, FRA reported that its inspectors identified 1,670 violations of hazardous materials regulations, and the Agency fined railroads and other regulated entities[7] roughly $3.9 million. Key elements in an effective enforcement program are considering risk when allocating enforcement resources and imposing sufficient penalties to deter future violations. Last month, we issued a report identifying shortcomings in the risk assessments FRA uses for allocating hazardous materials inspection resources and raised concerns about FRA's use of civil penalties and lack of criminal case referrals to OIG. FRA has agreed to implement our recommended improvements.[8]

Increasing Safety on Our Nation's Highways

Recent large-scale recalls from automotive manufacturers and continued efforts to enforce motor carrier regulations highlight a number of safety challenges the Department faces. Over the last 2 years, General Motors (GM) has recalled nearly 9 million U.S. vehicles for a defect involving a faulty ignition switch after it received more than 100 reports of death claims and more than 200 injury claims.[9] The GM recall and others have prompted reviews and recommendations on how NHTSA can improve its safety processes and controls, and NHTSA is working to address these concerns. For example, in 2011 we made recommendations to strengthen NHTSA's Office of Defects Investigations' (ODI) procedures for documenting and retaining evidence on defects investigations, coordinating with foreign nations to identify safety defects or recalls, and documenting its justifications for not investigating identified defects. Last month, we reported on NHTSA's progress towards those recommendations.[10] While NHTSA has completed the agreed-upon actions, we are concerned with how it is implementing some of them; in particular, NHTSA lacks mechanisms to ensure staff consistently apply the new policies. For example in response to one of our recommendations, ODI agreed to document justifications for exceeding investigation timeliness goals; however, over 70 percent of delayed investigations we reviewed did not include justifications for why these goals were not met. We made two new recommendations to enhance ODI's quality control mechanisms, and NHTSA fully concurred.

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[7] Entities that received these violations and fines may include railroads, shippers, or tank car repair facilities.

[8] *FRA's Oversight of Hazardous Materials Shipments Lacks Comprehensive Risk Evaluation and Focus on Deterrence* (OIG Report Number ST-2016-020), February 24, 2016.

[9] GM's ignition switch compensation fund had approved 124 death and 275 injury claims as of August 21, 2015.

[10] *Additional Efforts Are Needed To Ensure NHTSA's Full Implementation of OIG's 2011 Recommendations* (OIG Report Number ST-2016-021), February 24, 2016.

NHTSA also agreed to implement the 17 recommendations stemming from our June 2015 audit, which found weaknesses with how ODI collects vehicle safety data and uses that data to determine whether to open an investigation.[11] For example, ODI's processes were insufficient for verifying that manufacturers submit complete and accurate early warning reporting data, which can be essential for identifying potential safety trends or concerns.

It will also be critical for NHTSA to follow through on *NHTSA's Path Forward*, a 2015 self-evaluation report released by the Secretary of Transportation. Through this effort, the Secretary seeks to improve NHTSA's ability to hold manufacturers accountable by implementing more effective methods for overseeing carmakers and their suppliers, as well as collecting and communicating vital safety information. The Secretary also announced the formation of an expert panel to help strengthen NHTSA's defect investigation workforce. It will be important for DOT to closely monitor how NHTSA addresses the panel's findings and recommendations.

At the same time, DOT has important opportunities to improve the safety of its highway infrastructure, particularly the bridges and tunnels that connect our Nation's roadways. For example, the Federal Highway Administration (FHWA) must maintain momentum in its initiatives in response to our recommendations to implement data driven, risk-based oversight of bridges and implement improvements to bridge safety mandated under the Moving Ahead for Progress in the 21st Century Act (MAP-21).[12] FHWA must also continue its oversight of highway tunnel safety according to the National Tunnel Inspection Standards that became effective in August 2015 and maintain a national tunnel inventory.

Another critical—and longstanding—highway safety concern is reducing motor carrier fatalities. Our safety investigations continue to identify challenges for the Department and the Federal Motor Carrier Safety Administration (FMCSA) as they seek to remove unsafe motor carriers from highways. Since fiscal year 2008, we have opened 272 criminal investigations involving motor carrier safety. I would like to highlight two focus areas where the Department and FMCSA can bolster their safety efforts.

First, FMCSA must take stringent enforcement and out-of-service actions to remove motor carriers that repeatedly violate and blatantly seek to circumvent safety regulations, including (1) hours of service regulations and records of duty status; (2) medical, drug, and alcohol testing requirements for drivers; and (3) vehicle inspection, repair, and maintenance records. In some instances, these carriers have

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[11] *Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns* (OIG Report Number ST-2015-063), June 18, 2015.

[12] *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Recommendations* (OIG Report Number MH-2014-089) August 21, 2014, and *FHWA Effectively Oversees Bridge Safety, but Opportunities Exist To Enhance Guidance and Address National Risks* (OIG Report Number ST-2015-027) February 18, 2015.

been involved in multi-vehicle crashes and fatalities. While FMCSA has taken enforcement actions and is collaborating with our office and other law enforcement partners to remove these carriers from service, carriers intent on breaking the law continue to pose a significant threat to highway safety. Key actions to keep unsafe carriers off the road include effective vetting of carriers' applications, focusing resources on high-risk carriers, and prosecuting companies that are caught violating the law.

The second area concerns reincarnated carriers—carriers that attempt to operate as different entities in order to evade FMCSA's enforcement actions. Reincarnated carriers have been involved in approximately 14 percent of the motor carrier safety investigations we opened since fiscal year 2008. For example, in Texas, we investigated a company that was issued an unsatisfactory safety rating by FMCSA for numerous violations, including falsifying hours-of-service requirements and using drivers who were not medically examined or certified. After being placed out of service by FMCSA, the company reincarnated under a different name and was involved in a passenger bus crash that killed 14 people. FMCSA proposed that Congress modify Section 521 of Title 49 U.S.C. to make it a criminal penalty for knowingly and willfully violating an out-of-service order, which will assist in prosecuting reincarnated carriers. Criminal penalties under Section 521 currently contain only a misdemeanor provision, which is difficult to prosecute and less likely to result in jail time if prosecuted; therefore, its effect as a deterrent is limited.[13]

CONTINUING DILIGENT STEWARDSHIP OVER DOT'S CRITICAL INVESTMENTS

Diligent stewardship of DOT's investments of taxpayer funds is vital for the Department to effectively carry out its mission. While DOT remains committed to strengthening its oversight for highway, rail, and transit projects, opportunities remain to improve its risk-based oversight of projects and strengthen financial controls to protect its investments. In addition, FAA faces challenges in its efforts to provide effective contract and acquisition management—a critical element in reducing risk for the major programs and systems in which it has invested.

Maximizing Federal Investments Through Improved Risk-Based Oversight and Better Financial Controls

DOT receives over $50 billion in Federal dollars annually to fund projects to build, repair, and maintain the Nation's surface transportation system. Strong risk-based oversight and financial controls are key to the success of the more than 100,000 transportation projects funded by the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) each year.

[13] 49 United States Code Section 521(b)(6)(A) is a misdemeanor statute for violations of certain FMCSA regulations.

FHWA recently revised its overall risk-based strategy to overseeing Federal-aid highway project funds. This revised effort includes improving the linkage between FHWA's annual assessments of State and Federal-aid highway programs and analyzing that information to better target its oversight reviews of highway and bridge projects. FHWA recently completed its first full performance cycle with these revised initiatives; in future performance cycles, management will need to assess whether the program is robust and working as designed and make improvements where needed.

However, to address more specific risks, FHWA needs to improve oversight of financial and program plans covering major highway and bridge projects—those exceeding $500 million in funding—to implement its new guidance on project estimating, and address the backlog of pending Federal-aid highway project closeouts to ensure effective use of Federal funds. In addition, FHWA has yet to finalize improvements to its financial information system to improve project data used to oversee its programs.

FTA has similar opportunities to better target its oversight and use tools to meet its goals to ensure major projects are on time and within budget. For example, FTA did not verify the adequacy of the Metropolitan Washington Airports Authority's (MWAA) support for claimed costs on grant expenses for FTA's Dulles Rail Project.[14] As a result, FTA initially reimbursed MWAA for more than $36 million in unsupported and unallowable costs.[15] In addition, FTA faces challenges in overseeing how local transportation agencies continue to use the approximately $10 billion in relief funds for Hurricane Sandy. In 2015, we reported that FTA had not fully implemented the processes and internal controls (required by the Disaster Relief Appropriations Act) it established to award and monitor Hurricane Sandy funds.[16] FTA also has yet to develop a formal coordination process with the Federal Emergency Management Agency to reduce the risk of duplicating emergency and disaster-related assistance.

Fraud remains another ongoing concern. For example, our investigators determined that an owner of a Massachusetts transit authority bus operator diverted grant funds that were designated to pay salaries, benefits, and other expenses for employees of the bus company.[17] Similarly, during liaison and coordination efforts with FTA and other

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[14] *MWAA's Financial Management Controls Are Not Sufficient To Ensure Eligibility of Expenses on FTA's Dulles Rail Project Grant*, (OIG Report Number ZA-2014-021), January 16, 2014.

[15] FTA and Federal grant conditions require that grant recipients maintain support for federally funded project costs. MWAA did not have sufficient documentation to support some of the expenses charged to the Dulles Rail Project and these costs are considered unsupported. These principles also specify the types of costs that are allowable under Federal grant awards. An example of an unsupported cost that we found was invoices that said "labor" with no further details or documentation about what these charges included. An example of an unallowable cost that we found was $54,000 for expenses that were outside the scope of the Phase 1 Project to which they were charged.

[16] *FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts* (OIG Report Number ST-2015-046), June 12, 2015.

[17] The former owner was sentenced in July 2015 to 70 months in prison and ordered to pay $688,772 in restitution in connection with his diversion of grant funds.

stakeholders, we discovered that a Hurricane Sandy grantee was not reporting fraud settlements to FTA. We have reported that the use of integrity monitors can help to prevent and detect fraud and noted the importance of sharing fraud allegations across organizations so we can partner to combat wrongdoing.[18] As we stated in June 2015,[19] FTA must focus on promptly addressing identified oversight issues; strengthening stakeholder agreements; and enhancing controls to prevent, detect, and report fraud.

Structuring Major Aviation Acquisitions To Successfully Manage Risk

FAA continues to award high-dollar contracts without fully addressing and mitigating risk in the acquisition planning and contract award stages, often resulting in large cost overruns and delays in system implementation.

First, FAA has had ongoing challenges in effectively structuring several of its major acquisitions.[20] These issues have been prevalent with the $1.8 billion Automatic Dependent Surveillance-Broadcast (ADS-B) system. ADS-B is a new satellite-based surveillance system for managing air traffic that is critical to the success of FAA's Next Generation Air Transportation System (NextGen). Since 2010, we have reported that FAA faces significant risks in implementing ADS-B and realizing benefits due to weaknesses such as its contract structure and oversight. For example, the ADS-B contract structure bundles tasks and costs, making it difficult for decisionmakers to manage the contract and track costs. In addition, FAA covered the first 18 years of ADS-B's 28-year lifecycle through one contract award, rather than breaking it into more manageable segments as OMB and the Federal Chief Information Officer recommend.[21] While FAA has finished deploying the 634 ADS-B ground radio stations, based on our ongoing review, it remains unclear whether FAA has fully mitigated past problems associated with contract management and oversight to ensure it can achieve ADS-B technical requirements and do so within budget. We plan to issue our next report providing an update on how FAA is addressing ADS-B contract weaknesses later this year.

Second, FAA did not take sufficient steps to assess and mitigate risk factors we identified on a previous significant contract when selecting a bidder and awarding the new contract, potentially resulting in increased costs to the Agency. In 2015, FAA decided to award a $727 million new Controller Training Contract (CTC), without

[18] *Initial Assessment of FTA's Oversight of the Emergency Relief Program and Hurricane Sandy Relief Funds* (OIG Report Number MH-2014-008), December 3, 2013.
[19] *Oversight of Major Transportation Projects: Opportunities To Apply Lessons Learned* (OIG Briefing No. CC-2015-010), June 8, 2015. We briefed Members of the Committee on Oversight and Government Reform, Subcommittee on Transportation and Public Assets, United States House of Representatives.
[20] These acquisitions include the Wide Area Augmentation System (WAAS) Program, the Standard Terminal Automation Replacement System (STARS), and the En Route Automation Modernization (ERAM) system. FAA has awarded contracts for these large modernization efforts using a grand design, rather than through successive incrementally priced awards--each of which experienced cost increases, delays, and performance issues.
[21] FAA's AMS lacks sufficient guidance on practices that could minimize mistakes associated with acquisition planning, such as using modular contracting to award information technology contracts in incremental, workable segments; and using contract line items, with separate pricing, contract types, and deliverables, to better manage the acquisition.

first addressing longstanding issues we reported with its prior controller training contract, the $859 million Air Traffic Control Optimum Training Solution (ATCOTS) contract. Specifically, in 2013, we reported that before awarding ATCOTS, FAA determined there was a 60- to 80-percent likelihood that the successful bidder would not meet FAA's training needs with the limited staff hours proposed.[22] However, FAA did not require the contractor to address this issue prior to award and had to spend millions of dollars more than expected to make up for the shortfall in contracted resources. We made 10 recommendations in 2013 to improve FAA's management and oversight of the ATCOTS contract. We recently reported that while FAA addressed recommendations related to contract administration practices and oversight, it has not implemented those related to better defining training requirements and validating training costs.[23] These recommendations were designed to improve FAA's ability to develop a comprehensive understanding of its training needs and, in turn, a more reliable estimate of the Agency's training costs. Because FAA awarded CTC without fully addressing these recommendations, it may encounter many of the same issues that compromised the success of the ATCOTS contract.

Developing and Sustaining an Effective and Skilled DOT Workforce

Maintaining an effective and skilled workforce is critical to ensuring a safe and vibrant transportation system. This means identifying and hiring the right number of staff with the requisite skill mix; adapting hiring and training practices to account for changing missions, requirements, and workforce demographics; and implementing policies and procedures that promote employees' success and ability to carry out DOT's mission effectively.

However, DOT agencies have not always taken adequate actions to ensure a robust workforce. For example, FAA lacks a comprehensive process for determining staffing levels needed to oversee its Organization Designation Authorization (ODA) program—a program that allows FAA to delegate certain functions, such as certifying aircraft components, to manufacturers and other organizations. Although FAA uses a staffing model to help identify overall ODA staffing needs, the model does not include detailed data on important workload drivers, such as a company's size and location, type of work performed, past performance, and project complexity and volume. In addition, FAA does not have the data or an effective model to accurately identify how many air traffic controllers it needs to maintain efficiency without compromising safety. Therefore, as we recently reported, many of FAA's busiest and most complex air traffic control facilities have a shortage of fully trained controllers.[24]

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[22] *FAA Needs To Improve ATCOTS Contract Management To Achieve Its Air Traffic Controller Training Goals,* (OIG Report Number ZA-2014-018) December 18, 2013.
[23] *FAA Has Not Sufficiently Addressed Key Weaknesses Related to Its ATCOTS Contract* (OIG Report Number ZA-2016-010), December 10, 2015.
[24] *FAA Continues to Face Challenges in Ensuring Enough Fully Trained Controllers at Critical Facilities,* (OIG Report Number AV-2016-014), January 11, 2016.

We have an ongoing audit to examine FAA's new controller hiring process and the changes that have occurred since its implementation in 2014.

My office has made a number of recommendations to help DOT ensure its employees keep abreast of changing technology and missions. Now, agencies must follow through on actions planned in response to these recommendations. For example, in 2011 we found that NHTSA's ODI did not have a formal training program to help develop its current and future workforce to promote continuity of institutional knowledge. In 2015, NHTSA provided us a workforce assessment that evaluated its staffing and training needs for ODI. NHTSA must now fully implement the results of the workforce assessment to help inform future decisions on the resources required for this critical mission. Similarly, we found in 2014 that FHWA had not conducted a comprehensive assessment of MAP-21's impact on its workforce—despite the significant structural changes the act brought about, such as consolidation of several FHWA programs. FHWA has since completed an assessment that recognizes the Agency's need to make changes to the way it does business and deploys staff to meet MAP-21 requirements and carry out its mission effectively.

Changes in workforce demographics also present unique challenges for DOT. For example, 22 percent of DOT's acquisition workforce was retirement-eligible in fiscal year 2015, heightening the need for improved compliance with contracting officer (CO) training and experience requirements across all DOT agencies.[25] DOT's acquisition workforce is composed of hundreds of COs, CO representatives, and other supporting staff who provide agencies with the goods and services required to accomplish their mission at the best value to taxpayers.[26] While DOT has several training improvement initiatives under way for its acquisition workforce, our 2015 review found that it still needs to clarify and enforce its policies governing certification and warrant authority for COs.[27] Of the 63 COs we reviewed, 15 (24 percent) did not fully comply with DOT requirements. For example, 10 COs' certifications had expired, yet they continued to approve over 3,000 contract actions and obligate over $731 million. While DOT recently revised its acquisition workforce policy in response to our report, full implementation of our recommendations and enforcement of these policies will be critical to ensure that COs have the appropriate

[25] FAA is excluded from these data and the scope of our work described in this paragraph because Congress exempted FAA from Federal acquisition laws and regulations in DOT's fiscal year 1996 Appropriations Act. Congress provided FAA with broad authority to develop its own acquisition process. Under this authority, FAA developed the Acquisition Management System and a set of policies and guidance designed to address the unique needs of the Agency.
[26] COs are Government employees who can bind the Federal Government to a contract. COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. Contracting Officer Representatives (COR) are Government employees responsible for monitoring the contractor's progress in fulfilling the technical requirements specified in the contract. For example, CORs maintain administration records, approve invoices and perform quarterly monitoring reports to confirm the contractor is meeting the terms and conditions under the contract.
[27] *Some Deficiencies Exist in DOT's Enforcement and Oversight of Certification and Warrant Authority for Its Contracting Officers* (OIG Report Number ZA-2015-041), April 9, 2015.

training, experience, and certification to award and administer DOT's complex, high-dollar acquisitions.

ENHANCING DOT'S IT SECURITY AND PREPAREDNESS

Attacks on public and private sector information systems, carried out by increasingly well-funded and organized hackers, pose a continuous threat to the more than 450 information systems DOT uses to conduct business and operate some of the Nation's most critical transportation systems. While DOT has made progress in protecting its information systems, many remain vulnerable to compromise, underscoring the need for more effective contingency planning, and aggressive deterrence of insider threats.

Protecting DOT's Information Systems From Increasing Threats

DOT continues to face longstanding cybersecurity vulnerabilities and must take corrective actions to address identified weaknesses that pose threats to its information systems. To its credit, DOT has made major progress in implementing the required use of Personal Identification Verification (PIV) cards[28] for all DOT employees and contractors—a key step in securing access to DOT facilities and systems. DOT reported issuing PIV cards to 100 percent of its employees, and 98.3 percent have been configured for use in accessing networks—an increase of 74.5 percent from last year.

However, DOT has been slow to take corrective actions to address many other cybersecurity weaknesses. To help reduce cybersecurity risks, OMB requires agencies to track identified weaknesses using plans of actions and milestones (POA&M). Yet, in 2015, DOT had a backlog of more than 3,800 POA&Ms, which included 21 unimplemented recommendations we have made. DOT also remains behind schedule in implementing recommendations we have made in our annual Federal Information Security Management Act (FISMA) reports and other IT-related audits.

Many of our recommendations focus on key Administration priorities. For example, OMB requires agencies to implement continuous information system monitoring, which can provide near real-time security information to senior leaders, by 2017.[29]

[28] A PIV card is a smart card that contains the necessary data for the holder to be granted access to Federal facilities and information systems and assure appropriate levels of security for all applicable applications.
[29] Continuous monitoring involves establishing processes and capabilities to provide near real-time security information to senior leaders.

However, DOT has not yet defined the practices or technologies that should be used or established common security controls[30] to help protect its information systems, including high-value asset[31] systems. Specifically, DOT is still conducting planning and research to determine the resources needed to ensure that common controls are properly used, implemented, and monitored. Until those are finalized, DOT remains vulnerable to more aggressive and complex cyber threats due to insufficient security controls.

Strengthening Contingency Plans and Security Protocols To Deter Insider Threats

We continue to find weaknesses in DOT's ability to plan for contingencies and recover from disruptions, even for critical systems. For example, our ongoing work has shown that several Operating Administrations did not conduct annual contingency plan testing for their selected mission critical or high- and moderate-impact systems to ensure they will work in the event of a disruption, as required.[32] Specifically, 5 of the Department's 12 Operating Administrations did not comply with DOT policy to conduct such testing or meet all DOT requirements for their disaster recovery plans, potentially limiting their effectiveness at ensuring continuity of critical systems in the event of a malicious attack.

The importance of effective contingency plans was demonstrated on September 26, 2014, when an FAA contract employee deliberately started a fire that destroyed critical telecommunications equipment at FAA's Chicago Air Route Traffic Control Center in Aurora, IL. As a result of the damage, Chicago Center was unable to control air traffic for more than 2 weeks,[33] thousands of flights were delayed or cancelled, and aviation stakeholders and airlines reportedly lost over $350 million. While FAA completed comprehensive reviews of its contingency plans and security procedures following the Chicago Center incident, significant work remains to prevent or mitigate the impact of similar events in the future.

Notably, the event highlighted the need to enhance security and increase the flexibility and resiliency of the national air traffic control system. For example, FAA lacked the controls necessary to block access to a contract employee no longer assigned to this facility, thereby leaving the Center's high-value systems vulnerable to

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[30] Necessary to meet requirements of the National Institute of Standards and Technology (NIST), common system security controls are controls that exist in one system that can be used to protect other systems.

[31] High-value assets are assets, systems, or datasets that may be considered "high-value" by the Department based on the following attributes—sensitivity of the information, uniqueness of the dataset, impact of loss or compromise, system dependencies, and systems that are integral to supporting critical department communications. A system is considered "high impact" if the loss of confidentiality, integrity, or availability for that system could be expected to have a severe or catastrophic adverse effect on organizational operations, organizational assets, or individuals.

[32] Departmental Cybersecurity Compendium Supplement to DOT Order 1351.37, "Departmental Cybersecurity Policy," Version 3.0, September 2013.

[33] Chicago Center's air traffic and airspace responsibilities were eventually transferred to other facilities, based on a 2008 contingency plan and airspace map. This required extensive adjustments to ensure adequate radar and radio communication coverage.

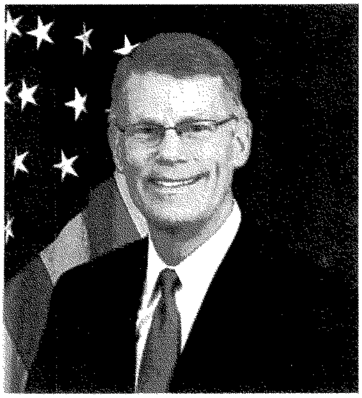
unauthorized access, disruption, and loss of information. Other insider threats pose significant threats to security, ranging from an employee who maliciously steals data to an employee who unwittingly opens infected email attachments. For example, in 2014, a DOT employee opened an infected email attachment and unleashed a serious computer virus (known as "Dyre") into DOT's network, compromising more than 5,000 computers and resulting in loss of productivity, email interruptions, and data loss. The virus was designed to steal information (including passwords), avoid routine detection, and generate new emails with attachments to further spread the virus. While DOT reported that the virus has been mostly eradicated, it noted the need to better train employees to protect DOT's systems to lower the risk of system compromise.

CONCLUSION

The safe and efficient movement of people and goods is vital to our Nation's economic growth, global partnerships, and quality of life. The Department has clearly demonstrated its commitment to advance these priorities. To continue addressing the management issues we have identified as well as a changing transportation environment, it will be important for the Department to follow through with new safety standards and recommended actions, stronger financial and project controls over major investments, and vigilant security and preparedness measures.

We remain committed to assisting DOT as it works to improve how it manages programs and resources and to our role in ensuring the greatest return on investment to taxpayers. I appreciate this Committee's continued support in the coming fiscal year to enable us to enhance our coverage of the Department's safety programs, high-dollar administrative and management assets, and information systems security.

This concludes my prepared statement. I will be happy to answer any questions you or other Members of the Subcommittee may have.



Calvin L. Scovel III

Inspector General

U.S. Department of Transportation

Calvin L. Scovel III was sworn in on October 26, 2006 as the sixth Inspector General of the U.S. Department of Transportation (DOT).

The Office of Inspector General (OIG) was established by law in 1978 to provide the Secretary and Congress with independent and objective reviews of the efficiency and effectiveness of DOT operations and programs and to detect and prevent fraud, waste, and abuse. OIG's staff works to support DOT's priorities of transportation safety and effective program delivery and performance.

Mr. Scovel joined DOT after 29 years of active service in the U.S. Marine Corps, from which he retired as a Brigadier General. His last military assignment was as a senior judge on the U.S. Navy-Marine Corps Court of Criminal Appeals. He previously served as Assistant Judge Advocate General of the Navy for Military Justice, the principal advisor to the Secretary of the Navy and the Judge Advocate General on all criminal justice policy matters. He also commanded a military police battalion that provided security and law enforcement for Marine Corps Base, Quantico, Virginia.

Mr. Scovel served as senior legal advisor for the 4th Marine Expeditionary Brigade, which included all Marine amphibious forces in Operation Desert Storm and later in a NATO exercise above the Arctic Circle in Norway. He had previously served as legal advisor for a Marine amphibious unit deployed to the Western Pacific and Indian Oceans, where it conducted exercises in Hawaii, Japan, the Philippines, Kenya, and Australia.

A Marine judge advocate, Mr. Scovel served as prosecutor, defense counsel, or judge in 250 courts-martial that included charges of murder, rape, child sexual assault, and drug trafficking. As an adjunct faculty member for the Defense Institute of International

Legal Studies, Mr. Scovel led instruction teams in the rule of law and civilian control of the military for senior civilian and military officials in Honduras, Mauritius, Albania, and Serbia. He was in the Pentagon on September 11, 2001. His military awards include the Legion of Merit (four awards) and Combat Action Ribbon.

Mr. Scovel is a recipient of the Secretary's Gold Medal for Outstanding Achievement for his leadership of OIG in supporting DOT's recovery effort after the collapse of the I-35W Bridge in Minneapolis in 2007.

Mr. Scovel received his bachelor's degree from the University of North Carolina at Chapel Hill and his juris doctor degree from Duke University School of Law. He also received a master's degree from the Naval War College.

Mr. Scovel is married and has two sons.

Mr. DIAZ-BALART. Thank you very much, sir, and, obviously, any other parts of the statement will be included for the record, and, as I said before, we thank you for the job that you are doing.

And with that, now we recognize the HUD's Inspector General, Mr. Montoya, for your opening statement. And, as I mentioned before, your full statement will be included in the record, so you are recognized, sir.

Mr. MONTOYA. Good afternoon. Thank you, sir. Chairman Diaz-Balart, Ranking Member Price, and members of the subcommittee, thank you for the opportunity to discuss the Department of Housing and Urban Development's top management and performance challenges in our oversight of HUD's programs and operations.

In 2015, our audits and reviews resulted in nearly $2 billion in recommendations that funds be put to better use, over $2 billion in questioned costs, and nearly $500 million in collections. Our investigative efforts also led to nearly $670 million in restitution, judgment recoveries, and receivables. When you add in our civil recoveries and receivables, our total results are close to $6 billion.

Our mission to promote economy and efficiency and effectiveness in the Department's programs and operations has determined that achieving HUD's mission continues to be an ambitious challenge for its limited staff, given its diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing and development programs.

Proposed new and program changes have introduced new risks, oversight, and enforcement challenges. In October 2016, my office reported on nine key management and performance challenges facing HUD in 2016 and beyond. Our work has noted that these challenges are so interrelated and interconnected, one impacts another to such a degree that, in many cases, the Department will not be able to remedy one without first addressing or correcting another. This becomes a taxing challenge to determine which needs to come first or whether several need to be accomplished simultaneously.

A common thread underlying many of these management performance challenges is the lack of a cohesive Department-wide approach to enforcement, risk management, monitoring, and follow-through on our findings. While HUD is starting to make some changes in certain programs to correct this, we will continue to stress a Department-wide risk monitoring approach that is data-driven and supports taking appropriate actions when warranted.

I want to draw your attention to two issues that are of serious concern to my office. The first is that the national credit and financial crisis continues to have a profound impact on departmental operations. HUD is an important component of the Nation's housing industry and that FHA-insured mortgages finance approximately one-fourth of all home purchases in the United States. As such, FHA's portfolio now exceeds $1 trillion.

Over the past 5 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent and has experienced its fastest growth in the last 6 years. As of August 2015, Ginnie Mae's mortgage-backed securities portfolio exceeded $1.6 trillion and is estimated to reach the $2 trillion mark in a little over a year.

We remain concerned that increases in demand on the FHA's program are having collateral implications for the integrity of Ginnie Mae's mortgage-backed securities program, including the potential for increases in fraud.

Secondly, the Department's information technology enterprise and security posture exposes it to a serious potential for a breach or failure. For example, HUD's Tenant Rental Assistance Certification System, also known as TRACS, satisfies an important role in HUD's multifamily housing program. It accounts for 78 percent of all HUD's housing subsidy processing. Of that 78 percent, 50 percent are voucher payments within multifamily housing, and the other 50 percent are Section 8.

For nearly 7 years now, the TRACS program office has requested funding to upgrade critical systems and components with no funding coming. According to the program offices' impact assessment, and I will quote, "TRACS has no vendor support agreement. Therefore, when the old system catastrophically fails, there is no means to manage Housing's rental assistance programs and/or pay subsidy payments of approximately $9.8 billion annually."

Like these examples, we will continue to build on the successes of the last number of years and ensure our work provides the means to keep the Secretary and the Congress fully and currently informed about the Department's problems and deficiencies, while also highlighting best practices.

I want to acknowledge that I have regular meetings with Secretary Castro and Deputy Secretary Coloretti on HUD's management and performance challenges, and that we have seen their efforts to address them. I will stress that their continued interest and focus is paramount to ensuring HUD can correct their longstanding issues. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently, effectively, and as intended for the benefit of those most in need, now and into the future.

Thank you again for the opportunity to testify today. I welcome any questions you may have.

[The information follows:]

Testimony before the U.S. House of Representatives
Committee on Appropriations
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies

"HUD Oversight and Management Issues"

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INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Testimony of
The Honorable David A. Montoya
Inspector General
Office of Inspector General
U.S. Department of Housing and Urban Development

March 15, 2016, 2:00 PM
Room 2359, Rayburn House Office Building

Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee, I am David Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to discuss the Department's top management and performance challenges and my Office's oversight of its programs and operations.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. It relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has responsibility for administering disaster assistance programs which has evolved substantially over the years. It also has assumed a prominent role in administering new mortgage assistance and grant programs in response to the Nation's financial crisis, to increases in foreclosures, and to declining home values.

I want to acknowledge that I have continuing open dialogues with Secretary Castro and Deputy Secretary Coloretti on the management and performance challenges that the Department faces and on the work my office does to bring these matters to their attention. I meet regularly with them and their key staff on areas of concern.

I am pleased to highlight the results from our last two Semiannual Reports to the Congress which showcase key results for fiscal year 2015. The Inspector General Act requires each inspector general to report on its results every six months. My office is charged with eliminating and preventing fraud, waste, abuse and mismanagement in HUD programs and operations, and the audits, evaluations and investigations conducted by my office have had a significant impact on safeguarding federal funds. My office takes the approach that early detection and prevention are key to ensuring taxpayer funds are not lost. During the last two 6-month cycles, we issued 148 audits and other reviews, which resulted in nearly $2.0 billion in recommendations that funds be put to better use, over $2.1 billion in questioned costs, and nearly $500 million in collections from audits. Our investigations led to nearly $670 million in restitution, judgments, recoveries and receivables. When you add in our civil recoveries and receivables, our total results are close to $6 billion with a return on investment of over $46 to every $1 spent on the OIG. Our audits, evaluations and investigations assist HUD in identifying program vulnerabilities and the rest of my testimony will focus on the management and performance challenges faced by HUD as well as the OIG's budget request for the upcoming fiscal year 2017.

Overview

The mission of the Office of Inspector General is not only to prevent and detect fraud, waste, and abuse in the programs and operations of the Department but to promote economy, efficiency and effectiveness as well. We accomplish this by conducting independent audits, evaluations, and investigations. The work performed by our auditors, evaluators, and investigators provides the means to keep the Secretary and the Congress fully and currently informed about the Department's problems and deficiencies while also highlighting best practices. After identifying problems and deficiencies, we make recommendations to improve operations and follow-up with departmental officials on corrective actions. We are committed to reducing fraud at the outset or at least halting it at the earliest opportunity. Protecting taxpayer dollars is one of the Inspector General's highest priorities in order to account for money going to the right place, doing what it was supposed to do, and having the results it was intended to have. We actively pursue financial and other fraud schemes in all of HUD's programs that can have a significant economic impact often at the expense of the American taxpayer.

HUD's Performance and Management Challenges

Achieving HUD's mission continues to be an ambitious challenge for its limited staff given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing and development programs. The national credit and financial crisis continues to have a profound impact on departmental operations. Proposed and new program changes have introduced new risks, oversight and enforcement challenges. HUD is an important spoke to the Nation's housing industry as FHA-insured mortgages finance approximately one-fourth of all home purchases in the United States and it has stepped in to bolster the marketplace during economic challenges.

In October 2016, OIG reported on nine key management and performance challenges facing HUD for fiscal year 2016 and beyond. They are so interrelated and interconnected that our reviews suggest one impacts another to such a degree that, in many cases, the Department will not be able to remedy one without first correcting another. This becomes a taxing challenge to determine which needs to come first or whether several need to be accomplished simultaneously. These challenges are in the following areas:

1. Human capital management,
2. Financial management governance of HUD,
3. Financial management systems,
4. Information security,
5. Single-family programs,
6. Public and assisted housing program administration,
7. Administering programs directed toward victims of natural disasters,
8. Office of Community Planning and Development programs, and
9. Compliance with the Improper Payments Elimination and Recovery Act of 2010.

Since our October 2016 report, my office has completed an additional evaluation relating to HUD's acquisition management and its efforts to address long-standing concerns in this area. I have added a discussion to summarize the results of that review.

Human Capital Management and Financial Management Governance

For many years HUD has struggled and been challenged to effectively manage its limited staff to accomplish its primary mission. HUD continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. Several studies have been completed in recent years by the Office of Personnel Management and the Government Accountability Office that point to a lack of human capital accountability and insufficient strategic management of human capital as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure which we have been reporting for the past three years as part of our annual audits of HUD's financial statements.

In our most recent report on HUD's fiscal year 2015 financial statements, we continued to report that HUD's financial management governance remained ineffective. While HUD and its components took steps to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, HUD needs to recruit and hire a Chief Financial Officer and Deputy Chief Financial Officer (CFO) with the requisite accounting and technical financial management skills to provide stronger direction to program office accounting so as to improve financial management and governance issues throughout the Department and at Ginnie Mae. Additionally, HUD needs to be more consistent in its control and monitoring activities, including front-end risk assessments, management control reviews and reconciliation activities.

These conditions stemmed from the lack of a senior management council which limits the CFO's ability to stress the importance of financial management and to facilitate internal control over financial reporting throughout HUD. Additionally, as we have reported in prior year audits, HUD did not have reliable financial information for reporting and has been slow in replacing its outdated legacy financial systems. Weaknesses in program and component internal control that impacted financial reporting were caused in part by a lack of financial management governance processes. Entity-level controls could improve HUD's governance and enable the prevention, detection, and mitigation of significant program and component-level internal control weaknesses. As a result, there were multiple deficiencies in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

A 2015 report from the National Academy of Public Administration (NAPA) also recognized the need for an internal management council to strengthen HUD's financial governance structure and enhance its monitoring of financial activity and controls. Such a council would:

- Assess and monitor deficiencies in internal control resulting from HUD's assessment process.
- Advise the HUD Secretary of the status of corrections to existing material weaknesses.
- Inform the Secretary of any new material weaknesses that may need to be reported to the President and Congress through the annual financial report.

We believe that these are critical steps towards establishing effective internal controls. In addition to its concerns and recommendations regarding HUD's impending transition to a shared service provider for financial management functions, NAPA found that HUD should strengthen its finance workforce. As we have previously reported, HUD's ability to monitor and perform routine financial management activities has been hampered by both turnover and reductions in staff. Between 2009 and 2014, there was a 40 percent turnover in CFO staff and an 11 percent reduction in full-time permanent CFO employees. Between 2014 and 2015 there was a 15 percent turnover and a 9 percent reduction in full-time employees. The turnover and reductions have placed additional burdens on CFO staff and limited its ability to perform its duties in a timely and efficient manner.

In addition to issues at the Departmental level, we have identified significant financial governance issues within Ginnie Mae. In fiscal year 2015, Ginnie Mae failed to maintain a governance framework to ensure the reliability and integrity of Ginnie Mae's financial and accounting information. This failure in governance was the underlying cause of the problems cited in the Ginnie Mae financial statement audit report. Specifically, Ginnie Mae failed to adequately:

- Identify, analyze, and respond to changes in the control environment and risk associated with the acquisition of a multi-billion-dollar servicing portfolio.
- Establish accounting policies, procedures, and systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolio.

- Oversee the implementation of the budgetary accounting module in its financial system to ensure accurate reporting of budgetary activity.

This condition occurred because of finance staff turnover and insufficient internal controls to manage the risks associated with business decisions and changes in its business environment. Additionally, Ginnie Mae's executive leadership failed to backfill a number of critical financial management positions, including the deputy chief financial officer, controller, and the economic modeling director, all of which have significant financial reporting roles. These positions had been vacant for an extended period, and Ginnie Mae relied heavily on contractors to compensate for finance staffing deficiencies. As a result, serious financial reporting deficiencies occurred at Ginnie Mae, the most recent of which required $1.9 billion of restatement adjustments to HUD's fiscal year 2014 consolidated financial statements. Compounding the problem was Ginnie Mae's late notification, inadequate communication, and lack of transparency, resulting in difficulties for HUD's CFO in preparing consolidated financial statements within the required timeframes and ultimately inhibiting our ability to validate the accuracy of the accounting adjustments. Time will tell whether a recent leadership change within Ginnie Mae will ameliorate some of these conditions.

Ginnie Mae's management of risks associated with (1) handling complex and changing financial management operations without the appropriate accounting policies and procedures in place and (2) monitoring the work performed by third-party service providers on Ginnie Mae's multi-billion-dollar servicing portfolio have challenged Ginnie Mae's inadequate financial management staff. These governance weaknesses contributed to Ginnie Mae's inability to produce auditable financial statements.

Financial Management Systems

Annually since 1991, OIG has reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used for core processing. In March 2012, work on HIFMIP was stopped and the project was later canceled. This previous attempt to use a commercial shared service provider to start a new financial management system failed after more than $35 million was spent. Our review of the project determined that OCFO did not properly plan and manage its implementation of the project.

In the fall of 2012, the New Core Project was created to move HUD to a new core financial system that would be maintained by a shared service provider, the U.S. Department of the Treasury's Bureau of Fiscal Services (BFS). We have completed two audits of HUD's implementation of the New Core Project. In the first audit, published in June 2015, we found that weaknesses in the planned implementation of release 3 of phase 1 in the New Core Project were not adequately addressed. We determined that HUD did not follow its own agency policies and procedures, the policies established for the New Core Project, or best practices. HUD will become the first cabinet-level agency to use a Federal shared service provider. The transfer of its financial management to a shared service provider has been widely publicized. If HUD is not successful in this implementation, it could reflect negatively on OMB's mandate to use Federal shared service providers. The weaknesses identified in this report relate to requirements and schedule and risk management. These areas are significant to the project plan, and the effectiveness with which HUD manages them is critical to the project's success.

Our second review, published in September 2015, found that HUD's implementation of release 1 of phase 1 was not completely successful. Due to missed requirements and ineffective controls, interface processing of travel and relocation transactions resulted in inaccurate financial data in HUD's general ledger and BFS' financial system. As a result, processing continued for more than 6 months with unresolved errors, leaving HUD's general ledger and BFS' financial system with inaccurate financial data and discrepancies in the balances between HUD's general ledger and Treasury's Government Wide Accounting System. We concluded that the implementation of release 1 confirmed the concerns we cited in our initial review. Although HUD had taken action to mitigate some of the problems that occurred with release 1 and address some of the issues we highlighted, we are concerned that HUD could be moving too fast with its implementation plans and may repeat these weaknesses.

We are also concerned about the current state of FHA's IT systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. In August 2009, FHA completed the Information Technology Strategy and Improvement Plan to address these challenges, which identified FHA's priorities for IT transformation. The plan identified 25 initiatives to address specific FHA lines of business needs. Initiatives were prioritized with the top five related to FHA's Single-family program. The FHA transformation initiative was intended to improve the Department's management of its mortgage insurance programs through the development and implementation of a modern financial services IT environment. The modern environment was expected to improve loan endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, few initiatives have been completed because of a lack of funding. The transformation team is in operations and maintenance mode for the few initiatives that have been implemented, and has limited capability to advance with the project due to the continued lack of funding.

Overall, funding constraints diminished HUD's ability to complete the new application systems and phase out and deactivate the outdated systems. Some progress has been made by creating new systems with modernized capabilities that replaced manual processes. However, many legacy systems remain in use. Another concern is the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to gain complexity, it becomes more difficult to maintain these legacy systems, which are 15 to 30 years old, and ensure that they can support the current market conditions and volume of activity. The use of aging systems has resulted in poor performance and high maintenance costs. As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification.

Information Systems Security Controls

HUD information systems have extensive amounts of sensitive data, with thousands of entities in the private sector and program officials directly accessing and using HUD applications daily. However, HUD has not adequately planned for its future IT and IT security needs. The primary HUD infrastructure services contract is in a period of transition and the agency has been forced to issue short-term sole-source contracts with the previous vendors to ensure continuation of service. Further, a significant number of critical HUD applications are legacy systems that are increasingly difficult to maintain and present security risks that HUD will be challenged to mitigate without modernization. Legacy systems are difficult or unable to migrate to cloud technology, further complicating the agency's long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings.

HUD has taken some initial steps to address these long-term challenges. The agency has finally filled and stabilized several key positions including the Chief Information Officer, Chief Information Security Officer, Chief Technology Officer, and Enterprise Architect. Strategic long-term planning documents have been developed, including an Enterprise Architect Roadmap aimed in part at guiding modernization efforts, and a Cybersecurity Framework to address IT security program deficiencies and prioritize initiatives to correct deficiencies. Notable change and implementation from these initiatives is not anticipated to be realized until later this year. Further, successful implementation of these plans will be directly dependent upon the agency's ability to obtain adequate resources including technical expertise. In the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its technical expertise and continues to face significant staffing challenges. For example, an organizational chart provided to OIG during its FY 2015 FISMA assessment reflected that 17 of the 35 key managerial/supervisory positions stationed at headquarters were either vacant (13) or filled by temporary "acting" personnel (4) during FY 2015. This presents significant challenges to HUD's ability to conduct technical security reviews of its infrastructure (e.g., penetration testing, network assessments) or adequately oversee the technical security provided by vendors.

Meanwhile, our annual evaluation of HUD's IT security program, as mandated by the Federal Information Security Management Act (FISMA), has revealed continued and extensive noncompliance with Federal IT guidance. As depicted in OIG's FY 2015 FISMA report, HUD has extensive deficiencies in five of the ten program areas which OIG reports to OMB. HUD is showing progress in remediating these deficiencies; examples include significant upgrades in its security awareness training program, account access management, and issuance of proper guidance for managing Plans of Action and Milestones (POA&Ms). However, the agency has not adequately addressed many long-standing security weaknesses identified in prior OIG evaluations.

Procurement and Contract Management

In prior years, we have reported on various concerns relating to HUD's procurement and contract management including HUD's information technology infrastructure contracts and HUD's transition to the third generation of its management and marketing contracts that are used to manage and dispose of its extensive inventory of foreclosed Single-family properties. HUD continues to be challenged by its over-reliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor work force.

HUD has developed several acquisition improvement initiatives to address the long-standing concerns in this area. We recently completed an evaluation to assess the status of these efforts and whether practices used by other agencies would enhance the quality and effectiveness of HUD acquisitions[1]. HUD had made progress in several areas, including revising and updating its procurement handbook and redesigning its web site. However, some initiatives had not been fully implemented or completed on schedule. HUD officials said that additional resources would be needed to effectively implement ongoing and planned improvement efforts. HUD had not developed a sound, cohesive strategy to address its improvement initiatives, and program offices

[1] Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016

did not all agree on resource requirements and respective responsibilities for their acquisitions staff.

Some of HUD's improvement initiatives did not follow successful program management practices or meet the U.S. Government Accountability Office's criteria for achieving an efficient, effective, and accountable acquisition function. We identified several successful practices of other Federal agencies that would improve HUD's acquisition function by using measurable objectives and goals, building partnerships, engaging stakeholders, managing change, streamlining functions, and training staff.

HUD procurement officials and the program offices did not always collaborate or communicate effectively and did not agree on the best way to address acquisition problems. HUD had also not maintained cost and performance metrics to determine where inefficiencies existed. Program offices continued to experience challenges, and some sought alternatives in shared services arrangements with Federal agencies to accomplish their acquisition objectives because the Department could not do it for them. HUD leadership needs to address these issues, or its acquisition function will remain at risk.

Single-Family Programs

FHA's Single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, or other underserved households to benefit from home ownership. HUD manages a sizable portfolio of Single-family insured mortgages exceeding $1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

For the 6 years following the financial crisis of 2008, the FHA fund had failed to meet its legislatively mandated 2 percent capital ratio. From a low following the financial crisis, the fund has shown gradual improvement and, at the end of FY 2015, the capital ratio stood at 2.07 percent. Much of this success is heavily dependent on a strong Home Equity Conversion Mortgage insurance program (HECM), a program we have reported on several times. The HECM program is sensitive to a number of factors that can influence its financial stability which then, in turn, can have a significant impact on the achievement of an adequate capital ratio as mandated by statute. While barely above the mandated level, this improvement is a positive development and occurred a year earlier than predicted at the end of 2014. Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund.

It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs. OIG continues to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with the Department, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. In some instances, these investigations involve not only the loan underwriting of FHA loans but also the underwriting of conventional loans and government-insured loans related to federal programs other than FHA. For those investigations that involved OIG's assistance on the FHA-related part of the cases, the Government has reached overall civil settlements yielding nearly $13.2 billion in damages and penalties in the last 4 fiscal years.

For the FHA-insured loans, results in the last 4 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result and as pointed out in the beginning of the testimony, the Government has reached civil settlements regarding FHA loan underwriting totaling $3.5 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and Program Fraud Civil Remedies Act. Nearly $2.4 billion of the $3.5 billion is of direct benefit to the FHA insurance fund. Ongoing investigations are expected to lead to additional settlements that will further strengthen the health of the fund.

In spite of these positive steps, we remain concerned about HUD's resolve to take the necessary actions going forward to protect the fund. HUD is often hesitant to take strong enforcement actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program. For example, FHA has been slow to start a rigorous and timely claims review process. OIG has repeatedly noted in past audits and other types of lender underwriting reviews HUD's financial exposure when paying claims on loans that were not qualified for insurance, most recently last year. Adding to this concern, HUD increased its financial exposure by not recovering indemnification losses.

The Reverse Mortgage Stabilization Act of 2013 gave FHA the tools to improve the fiscal safety and soundness of the HECM program in a timelier manner. Despite the ability to quickly make needed changes as appropriate to the program, FHA faces challenges in ensuring that homeowners comply with the principal occupancy requirements (though not all dual HECM's are considered improper). For example, borrowers are not required to repay the loan as long as they continue to occupy the insured property as its principal residence. To date, OIG has completed four audits on the HECM program and compliance with principal occupancy requirements. Our initial audit identified borrowers with more than one HECM loan despite the principal occupancy requirement. Borrowers were able to obtain more than one HECM loan because of a lack of controls in place to identify this noncompliance. The Department has been receptive to our findings and has implemented controls to address this problem.

Departmental clearance is a necessary and important process to ensure requisite agreement by applicable HUD leadership on the subject matter and content of a directive or policy change. This action requires a review by HUD offices that have expertise, policy or legal, with the subject matter of the change and that there is no conflict with other HUD or administration policies.

At a time when FHA is working to restore confidence in the housing market, OIG has concerns that when the Department is making program, policy or procedural changes, it is (1) not identifying the significant changes in its notice, (2) not following the formal clearance process and instead opting for a more informal method, or (3) avoiding the process altogether and making changes unilaterally. For example, in May 2015, HUD issued a notice in the Federal Register seeking OMB approval for information collection. However, OIG believes that the notice did not adequately describe the changes to be made. The Notice proposed to make changes to the loan-level certifications that lenders must make to obtain insurance from FHA. As a result, the certification process became ineffective and allowed loan originators, firms, or principals that have been convicted of certain violations to do business with FHA. However, this detail was not provided in the notice. Another example is FHA's Single-Family Housing Loan Quality Assessment Methodology (Defect Taxonomy). The goal of this methodology is to give lenders better clarity on the quality assurance reviews of their FHA loans. Although HUD stated that the draft Taxonomy documents had been published on FHA's Drafting Table web site, FHA did not follow the proper protocol for issuing a new directive. These changes fit the description of a directive change and should have been announced through the proper steps and clearance process as outlined in its own Handbook.

FHA also remains vulnerable to criminal activity and single-family criminal investigations continue to be a priority of my office. We recently concluded an investigation of Great Country Mortgage Bankers, a former FHA mortgage lender in Miami, FL. The owner of the company was sentenced in U.S. District Court to 135 months incarceration and 60 months supervised release and agreed to forfeit $8 million following his conviction of conspiracy to commit wire fraud affecting a financial institution. From at least 2006 through September 2008, the owner and other conspirators specialized in approving FHA loans primarily for buyers of condominiums at complexes where he had an ownership interest. As part of the scheme, the conspirators provided false information on loan documents to qualify borrowers and in some cases, also paid inducements to borrowers to purchase the condominium units. Many of the loans defaulted, causing losses to FHA and financial institutions. To date, 25 individuals have been charged in this investigation, including the owner, 3 partner developers, and 20 former employees of the mortgage lender. Of those charged, 14 individuals have pled guilty, and 1 has signed a plea agreement. Losses to FHA exceeded $64 million. This case, and others, highlight why the HUD OIG believes that FHA needs to remain diligent in its efforts, including keeping or enhancing practices that oversee and monitor abusive or wasteful behavior, aimed at those who seek to harm the viability of the program and ultimately the public.

Over the past 5 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent and has experienced its fastest growth in the last 6 years. As of August 2015, Ginnie Mae's mortgage-backed securities (MBS) portfolio exceeded $1.6 trillion and is estimated to reach the $2 trillion mark in a little over a year and a half. We remain concerned that increases in demand on the FHA program are having collateral implications for the integrity of Ginnie Mae's MBS program, including the potential for increases in fraud. Ginnie Mae securities are the only mortgage-backed securities to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's government or agency MBS pools. Historically, Ginnie Mae issuer defaults have been infrequent, involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion-dollar rise in Ginnie Mae's nationwide mortgage servicing as well as its repurchase of billions of dollars in defaulted whole loans to meet its guarantee commitments to MBS investors. In the near term, these changes have strained both its operating and financial resources.

Another key challenge facing Ginnie Mae is the risk posed by the growing number of Ginnie Mae issuers that are institutions other than banks. In June 2011, 7 of the top 10 servicers were banks, but by September 2015, only 4 of the top 10 servicers were banks. Ginnie Mae's potential for losses occurs when an issuer fails to fulfill its responsibilities. With the significant shift of its business going to nonbanks, Ginnie Mae can no longer rely on the Office of the Comptroller of the Currency and other bank regulators to ensure that its servicers can meet their financial obligations. To mitigate the risks, Ginnie Mae will need to be more involved with nonbanks to adequately monitor them, which would require Ginnie Mae to increase its current staffing level and expertise.

With the approval of OMB and Congress, Ginnie Mae has significantly increased its management capacity. The total number of Ginnie Mae full-time employees increased from 89 in fiscal year 2012 to 130 at the end of fiscal year 2015. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions. It is imperative to the country's larger financial health that Ginnie Mae be able to increase staffing with the needed skills, knowledge, and abilities to manage a $1.6 trillion program.

Ginnie Mae could benefit from an estimated 30 positions with a higher salary level than what the general schedule allows in order to attract the needed and specialized skill sets to operate in the U.S. financial market. HUD's lack of human capital management support and a weak procurement process have contributed to Ginnie Mae's inability to promptly recruit and hire needed skills as well as hampered its ability to operate swiftly and timely in the marketplace.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing Programs provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. More than 4,000 intermediaries provide affordable housing for 1.2 million households through the low-rent operating subsidy public housing program and for 2.2 million households through the Housing Choice Voucher program. Multifamily project owners assist more than 1.5 million households.

Housing Choice Voucher Monitoring

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's on-site confirmatory reviews, the self-assessments are not always accurate and the reliability of the information contained in PIH systems is questionable. PIH targets PHAs for various types of on-site reviews using its Utilization Tool and National Risk Assessment Tool. It also states that it will further address limitations with the Next Generation Management System, which continues to be delayed due to a shortage in IT funding. HUD will continue to face challenges in monitoring this program until it has fully implemented a reliable, real-time, and all-inclusive monitoring tool.

Central Office Cost Centers

We are concerned that HUD may not be ensuring that defederalized administrative fees paid to PHAs for their public housing program are reasonable. We found that HUD could not adequately support the reasonableness of operating fund management, book-keeping, and asset management fees and Public Housing Capital Fund management fee limits. In addition, HUD lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than $81 million in operating funds being unnecessarily defederalized annually. Our concern continues to be that the fee amounts implemented are not supported and may not be reasonable. Excess administrative fees, if defederalized, are not required to be used for the public housing program. Ensuring that only the funds that are needed are transferred to the COCC will allow more funds to be used directly for the public housing program. After input from OMB, HUD and OIG have reached an agreement to implement the recommendations as stated in our audit report. HUD has agreed to refederalize the fees and will be reevaluating the fee amounts. HUD will need to go through the rulemaking process to fully implement the changes, so it may take some time.

Cash Management Requirements

In fiscal year 2012, PIH implemented procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts in accordance with Treasury's cash management requirements as directed by a congressional conference report. By that point, a significant amount of reserves had accumulated with the PHAs. As of 2015, most of the funds had been transitioned back to HUD. However, PIH has not transitioned any of the excess funding from its Moving to Work (MTW) program PHAs. Through PIH's confirmation process, MTW PHAs reported holding $556 million and $514 million, as of September 30, 2014, and March 31, 2015, respectively. PIH must now validate these balances before it transitions the funds back. This process may take some time because the composition of these balances is complex and HUD was not tracking the funds for these agencies. Until HUD validates and collects the funds, MTW PHAs will continue to hold hundreds of millions of dollars in excess of their immediate disbursement needs, making the funds susceptible to fraud, waste, and abuse. Further, this is a continued departure from Treasury's cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its PHAs and to ensure that Federal cash is not maintained in excess of immediate need. Reconciliations are prepared manually on unprotected Excel spreadsheets for more than 2,200 PHAs receiving approximately $17 billion annually. This process is time consuming, antiquated and labor intensive, and does not allow for accurate financial reporting at the transaction level as required by FFMIA. This process also increases the risk of error and causes significant delays in the identification and offset of excess funding. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter has been elevated to the Deputy Secretary for a decision.

Monitoring of Moving to Work Agencies

HUD's monitoring and oversight of the 39 PHAs participating in the MTW demonstration program is particularly challenging. The MTW program provides PHAs the opportunity to develop and test innovative, locally-designed strategies that use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. However, in the more than 15 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives which such a long-standing demonstration should assert. This is particularly important as under the MTW program participants receive less oversight from the Department. HUD expanded the program to include more participants without knowing whether participating PHAs are reducing costs to gain increased housing choices and incentives for families to work. HUD is experiencing challenges in developing program-wide performance indicators that will not inhibit the participants' abilities to creatively impact the program. It is developing renewal contracts to replace contracts expiring in 2018. HUD management developed new metrics to help measure program performance and states that the new contracts will allow it to better evaluate each PHA's performance. We continue to believe that this is essential before new agencies are allowed into the program. Moreover, HUD could benefit from a formalized process for terminating participants from the demonstration program for failure to comply with their agreement.

Overincome Families in Public Housing

HUD's challenge in addressing overincome families living in public housing units is exacerbated by public housing agencies' lack of desire to address these issues themselves. HUD's December 2004 final rule gave public housing authorities discretion to establish and implement policies that would require families with incomes above the eligibility income limits to find housing in the unassisted market. HUD regulations require families to meet eligibility income limits only when they are admitted to the public housing program. Neither public law nor regulations limit the length of time that families may reside in public housing. Our recent audit[2] showed that as many as 25,226 families, whose income exceeded HUD's 2014 eligibility income limits, lived in public housing. The PHAs that we contacted during the audit chose not to impose limits based on the notice. In response to our audit, PIH initially disagreed. After some public discourse, HUD issued a letter to PHA executive directors, strongly encouraging them to use the discretion available to them to remove extremely overincome families from public housing. However, HUD does not have the authority to require PHAs to implement limits. Consequently, to comply with our recommendation, HUD initiated the rulemaking process through an advanced notice of proposed rulemaking. Through this process, HUD will collect public comments from stakeholders and determine how to proceed with rulemaking. We will be part of this process. Our concern is that a nationwide policy may limit flexibility to protect tenants. Until a new final rule is established, PIH will need to find a way to encourage PHA participation and ensure the effectiveness of its policies.

Environmental Review Requirements

In recent reports,[3] we demonstrated that PIH did not adequately implement environmental requirements or provide adequate oversight to ensure compliance with these requirements. The Offices of Housing and Public Housing did not adequately monitor or provide training to their staff, grantees, or responsible entities on how to comply with environmental requirements. Also, HUD did not have an adequate reporting process for the program areas to ensure that the appropriate headquarters programs were informed of field offices' environmental concerns. Further, our review of five Office of Public Housing field offices found that none of them followed environmental compliance requirements. HUD relied heavily on its Office of Environment and Energy to ensure compliance with environmental requirements. HUD stated that cross-office collaboration should be encouraged as a sensible and efficient way to achieve oversight and compliance objectives. While HUD shares OIG's concerns regarding responsible entities' compliance with environmental requirements and agreed with our recommendations, HUD believes that the program offices do not always have the authority to impose corrective actions or sanctions. We provided several examples in which environmental issues, if not detected, can severely impact the residents and communities as well as consume significant resources.

As a result, HUD began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. Also, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems. HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for

[2] Audit Report 2015-PH-0002, Overincome Families Resided in Public Housing Units, July 21, 2015

[3] Audit Report 2015-FW-0001, HUD Did Not Adequately Implement or Provide Oversight To Ensure Compliance With Environmental Requirements, June 16, 2015; Audit Report 2014-FW-0005, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office, September 24, 2014; Audit Report 2014-FW-0004, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Greensboro Office, July 14, 2014; Audit Report 2014-FW-0003, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Columbia Office, June 19, 2014; Audit Report 2014-FW-0002, Improvements Are needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office, May 12, 2014; and Audit Report 2014-FW-0001, The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, February 7, 2014

compliance. HUD's Office of Environment and Energy had also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues.

While HUD has made improvements, it faces several challenges, including lack of resources, unclear guidance, and a perceived lack of authority to impose corrective actions or sanctions on responsible entities. Until HUD fully addresses these needed improvements, it faces an increased risk of creating a potential human health and safety concern as well as possible damage to the environment. For the five Office of Public Housing field offices we visited, PHAs spent almost $405 million for activities that either did not have required environmental reviews or had reviews that were not adequately supported.

Physical Condition of the Housing Choice Voucher Units

In response to a 2008 audit report,[4] HUD developed a plan to monitor the physical condition of its Housing Choice Voucher program units. HUD is testing a system of inspections similar to the model used for its public housing units and multifamily projects. However, this testing with an initial target completion date of September 30, 2014, is taking considerably longer than expected. HUD has performed initial inspections of a sample of its voucher units. However, it needs resources to continue developing the new protocol and related software for its comprehensive monitoring system. Meanwhile, we continue to identify PHAs with inspection programs which do not ensure that voucher program units comply with standards.

OIG's Fraud Prevention Program

To assist the department in addressing these various issues, my office has initiated a fraud prevention program. A key component of this is a series of Integrity Bulletins to aid commissioners and public housing executives to identify red flags of fraud and mismanagement. The series includes topics such as Procurement and Contracting, Embezzlement, Charge Cards, Fraud Policy, Hiring, and a Primer for Commissioners. These bulletins are available on the OIG public web site. To further alert public housing boards and directors of these bulletins, a direct emailing went out July 2015 that was signed jointly by Principal Deputy Assistant Secretary Lourdes M. Castro Ramírez and me. The letter emphasized that public trust and integrity is a collective responsibility, and encourages recipients to read and share the Integrity Bulletins.

The fiscal year 2014 appropriation language required HUD to work jointly with the OIG "...to determine the critical skills that PHA boards should have to effectively oversee PHA operations, as well as the actions HUD will take to ensure that PHAs possess them...." HUD has since developed a web-based training program for boards of commissioners. The training, named "Lead the Way" includes the basic skills and knowledge commissioners need to understand their roles and responsibilities. HUD is now in a second phase working with our office to update the training to add skills and knowledge for identifying risks and responding to them. The training will also cover identifying common fraud and mismanagement issues and how to report cases to OIG. The target for completion of the training is mid-summer 2016.

One challenge that has not been resolved is how to get commissioners to complete this training. HUD has no authority to require completion of the training of the boards (or PHA executive staff

[4] Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008

either). HUD reports that about 500 commissioners have completed the training. Industry group training for commissioners appears to have the same problem in getting commissioners to attend training with 300 commissioners being certified by the National Association of Housing and Redevelopment Officials, and a similar number being certified through the Public Housing Authority Directors Association. All these together have trained and certified about seven percent of commissioners.

Professional certification for public housing commissioners and executive directors exists in a conflicting array of certificates offered by public housing industry groups. While these certification programs are available, completion of the training is not a requirement to serve as a commissioner or executive director.

We believe it would take congressional action to require boards and key executive staff to be certified. A certification body needs to be designated, with HUD approval of a curriculum, and timeframes established for phasing in the requirement. A requirement would also be useful that would establish a deadline for successfully completing the training. Certification of executive directors should likewise be mandated for at least medium and larger size agencies.

Administering Programs Directed Toward Victims of Disasters

The Department faces significant challenges in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of the limited resources to directly perform oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability of the Department to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and that they use the funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult due to the diverse nature of HUD projects and the fact that some construction projects may take between five and ten years to complete. HUD must be diligent in its oversight to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

My office has completed 16 audits and 1 evaluation relating to CDBG-DR funding for Hurricane Sandy and other eligible events occurring in calendar years 2011, 2012, and 2013. There are a number of other audits and evaluations, as well as investigative work, that are currently underway. Prior to Hurricane Sandy, HUD-OIG had extensive audit and investigative experience with HUD's CDBG-DR program, most notably, with grants relating to recovery after Hurricane Katrina and the terrorist attacks of September 11, 2001. Over the years, HUD has gained more experience and has made progress with assisting communities recovering from disasters, but it continues to face the following challenges in administering these grants:

1) Ensuring that expenditures are eligible and supported;
2) Approving the program waiver process;
3) Certifying that grantees are following Federal procurement regulations;
4) Conducting consistent and sufficient monitoring efforts on disaster grants;
5) Promoting disaster resiliency within communities trying to recover; and
6) Keeping up with communities in the recovery process.

I will elaborate on the first two areas above as they represent the most serious challenges faced by HUD.

Ensuring That Expenditures Are Eligible and Supported

In overseeing the CDBG-DR program, HUD must ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. Our audits relating to Hurricane Sandy funding have identified $3.5 million in ineligible costs, $458 million in unsupported costs, and $360 million relating to recommendations that funds be put to better use. We have highlighted four audit reports that demonstrate these challenges for HUD in administering grants made under this program:

- In our review of New York City's Health and Hospitals Corporation,[5] we determined that City officials disbursed $183 million to the City's subrecipient for unsupported salary and fringe benefits and unreasonable and unnecessary expenses and did not adequately monitor its subrecipient and sufficiently document national objectives. As a result, City officials could not assure HUD that (1) $183 million in CDBG-DR funds was disbursed for eligible, reasonable, and necessary program expenses and (2) going forward the City will have adequate accounting and financial controls in place to ensure the remaining allocation of $40 million will be properly spent for the purposes intended.

- In our review of New Jersey's Sandy Integrated Recovery Operations and Management System, we found that the State did not procure services and products for its system in accordance with Federal procurement and cost principle requirements. The State's procurement process was not equivalent to Federal procurement standards. As a result, it disbursed $38.5 million for unsupported costs. It was also planning to disburse another $21.7 million to extend the initial period of the related contract for 3 additional options years including $9.1 million for costs that it had not shown were fair and reasonable.

- In our review of New York State's buyout program,[6] we determined that officials did not always administer the program in accordance with program procedures. As a result, officials disbursed $6.6 million for properties that did not conform to published requirements. This amount included $672,000 and $598,300 for ineligible incentives and purchase prices in excess of authorized limits, respectively. In addition, documentation was inadequate to support that $1.7 million was disbursed for eligible purchases and that $8.7 million spent for contracts complied with Federal or State requirements.

- In our review of the New York Rising Housing Recovery Program,[7] we found that officials did not establish adequate controls to ensure that CDBG-DR funds were awarded and disbursed for eligible costs. As a result, more than $2.2 million in CDBG-DR funds was disbursed for ineligible costs and $119,124 for unsupported costs. Additionally, the use of a statewide cost figure, by which more than $87.5 million was awarded, was unsupported. Also, State officials

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[5] Audit Report 2015-NY-1001, The City of New York, NY, Did Not Always Disburse Community Development Block Grant Disaster Recovery Assistance Funds to Its Subrecipient in Accordance With Federal Regulations, November 24, 2014

[6] Audit Report 2015-NY-1010, New York State Did Not Always Administer Its Rising Home Enhanced Buyout Program in Accordance with Federal and State Regulations, September 17, 2015

[7] Audit Report 2015-NY-1011, Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs, September 17, 2015

needed to ensure that receipts were available to support work completed, or request that more than $241.2 million be repaid.

We attributed these conditions to the grantees' weaknesses in maintaining file documentation, unfamiliarity with HUD rules and regulations, and failure to follow State and Federal procurement regulations.

Approving the Program Waiver Process

We performed two reviews of the State of Louisiana's Road Home Elevation Incentive (RHEI) Program, in 2010[8] and a follow-up review in 2012[9]. Based on these reviews, it appears that HUD has established a pattern and practice to either waive the program requirements, or retroactively approve the State's amended action plan after the fact, when deficiencies are identified with this program. The initial review's objective was to determine whether homeowners used funds to elevate their homes as set out in their grant agreements. The review found that 79 percent of the homes we inspected had not been elevated, strongly suggesting that the grant program was at risk and could fail to achieve its intended goal of reducing homeowner flood risks from future hurricanes. Our follow-up review found that as of August 31, 2012, the State did not have conclusive evidence that approximately $698.5 million in CDBG-DR funds provided to 24,000 homeowners had been used to elevate homes. As an example of HUD's practice to minimize or eliminate original program requirements, HUD approved the State's Amendment 60 on July 26, 2013, which retroactively allowed homeowners who received a grant under Road Home to prove that they used those funds to either elevate or rehabilitate their home, although the grant was specifically intended for elevation only. The amendment is contrary to the elevation incentive agreement which stated that the funds were intended to assist homeowners to only elevate their homes. If the funds were not used for this sole purpose, they were to be repaid to the State.

In August 2015, HUD again unilaterally waived the Road Home program requirements. Specifically, HUD changed its 2013 documentation requirement for rehabilitation expenses to permit an affidavit by the homeowner and a "valuation inspection" by the State to determine the value of home repairs that were previously performed. This waiver of requirements was due to the fact that it was still having difficulty acquiring documentation from homeowners as proof of repair. This new approach does not consider whether recipients previously received grants or insurance funds for rehabilitation and could result in a duplication of benefits. While Congress provided considerable flexibility in the use of CDBG-DR funds, it specifically required HUD to establish procedures that prevent duplication of benefits.

HUD has not properly enforced the intent of the Road Home program, instead opting to change the rules ex post facto so that violations can potentially be excused. If HUD wishes to implement proper risk management in its programs, this most recent action seems to defeat the purpose as it announces to all recipients of HUD funds that noncompliance may be pardoned because the Department will allow it in the end with no consequences for divergent actions.

HUD's actions, and retreat from its position and the original intent of the approved State action plans, diminishes HUD's ability to properly administer grant agreements, provide proper

[8] Inspections and Evaluations Report IED-09-002, Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance, March 2010

[9] Audit Report 2013-IE-0803, Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance (IED-09-002 March 2010), March 29, 2013

oversight and enforcement when needed, and lessens the affected homeowners' trust and confidence that HUD maintains the highest standards of efficiency and fairness in its grant award process.

Government-wide Concerns

In view of the significance of funding to multiple agencies to address Hurricane Sandy, my office is leading a joint cross-cutting review with seven other OIGs[10] to assess participating Federal entities' funding, expenditures, and monitoring. Our objective is to identify common concerns and make recommendations to improve oversight, enhance collaboration, and report on best practices.

As noted earlier, Congress imposed time limits with respect to the funding it provided to HUD in the Disaster Relief Appropriations Act, 2013. Funding for other agencies either included varying time limits or, in some cases, imposed no time limit and will remain available until spent. Based upon our audits of funds relating to prior disasters, we believe that imposing statutory deadlines will help to ensure that funds are promptly spent. HUD is not alone in facing challenges with timely expenditure of funding. A representative from the Department of Homeland Security's OIG told us that FEMA disaster funds remained unspent for extended periods and FEMA still had unspent funding relating to the Northridge earthquake (more than 21 years ago) and Hurricane Katrina (more than 10 years ago).

Funding for oversight activities also varied. Separate funding was provided to both HUD and HUD-OIG for oversight. The Department of Health and Human Services, which received more than $500 million in funding, also received funding for its OIG but not for the agency to conduct administrative oversight. OIGs from the Department of the Interior, Environmental Protection Agency and the Department of Defense did not receive separate funding to provide for oversight of their respective agencies' funding that ranged from $577 million to more than $5 billion.

Our collaboration with other OIGs has noted a common concern with respect to time limits being placed on oversight funding relating to Hurricane Sandy. As is the case with HUD CDBG-DR funds, HUD-OIG's funding must be obligated by the end of fiscal year 2017. This presents a challenge for HUD-OIG because much of the expenditure activity under the CDBG-DR program will occur well after that date, as late as the end of fiscal year 2022. In addition, a waiver was obtained that allows the Department to extend program funds beyond the original deadline. It is unclear from the current statutory language whether HUD-OIG will be able to use its Sandy funding beyond the obligation deadline. HUD-OIG is planning to seek an opinion on the specific appropriation issue from the GAO.

As of the end of fiscal year 2015, over 70 percent of HUD's Hurricane Sandy funding remains unspent and until the bulk of that funding is spent, our ability to conduct effective oversight is limited. This is a concern with at least two other OIGs who have expressed similar concerns with the slow rate at which their respective agencies are using their disaster assistance funding. I urge the Congress to recognize that oversight activities conducted by the various agencies and their OIGs need to occur well beyond the obligation deadline and to consider providing relief to the affected organizations to extend the date at which these oversight funds will expire.

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[10] In addition to HUD-OIG, OIGs from the following agencies are participating: Department of Homeland Security, Department of Health and Human Services, Department of Defense, Department of the Interior, Department of Transportation, Small Business Administration, and Environmental Protection Agency.

Community Planning and Development Programs

Due to the use of what the Department calls the FIFO method (first-in, first-out as an accounting methodology of appropriated funds)[11] for committing and disbursing obligations, HUD's accounting for its Community Planning and Development formula grant programs' accounting does not comply with accounting standards resulting in material misstatement of HUD's financial statements. Since 2013, we have also reported that the information system used, the Integrated Disbursement Information System (IDIS) Online, a grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. Moreover, because of funding problems, completion of the elimination plan will be delayed until December 2016.

As a result, budget year grant obligation balances continued to be misstated and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS were necessary for the system to comply with the Federal Financial Management Improvement Act (FFMIA) and USSGL transaction records.

The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method made it impossible to quantify the financial effects of FIFO on HUD's consolidated financial statements. Further, because of the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2015 and in prior years were materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

HUD's continued inability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and spending funds continues to remain a concern until appropriate system changes in IDIS Online are implemented and regulatory changes are fully implemented. The HOME Investment Partnerships Program is the largest Federal block grant to State and local governments designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis.

In 2009, OIG challenged HUD's cumulative method[12] for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, OIG contacted GAO in 2011 and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion affirming OIG's position and citing HUD for

[11] The FIFO method is a way in which CPD disburses its obligations to grantees. Disbursements are not matched to the original obligation authorizing the disbursement, allowing obligations to be liquidated from the oldest available budget fiscal year appropriation source. This method allows disbursements to be recorded under obligations tied to soon-to-be-canceled appropriations.

[12] HUD implemented a process, called the cumulative method, to determine a grantee's compliance with the requirements of section 218(g) of the Statute and determine the amount to be recaptured and reallocated with section 217(d). HUD measured compliance with the commitment requirement cumulatively, disregarding the allocation year used to make the commitments.

noncompliance. In its decision, GAO repeated that the language in the statute was clear and that HUD's cumulative method did not comply with the statute. Accordingly, GAO told HUD to stop using the cumulative method and identify and recapture funds that remain uncommitted after the statutory commitment deadline.

The effects of the GAO legal opinion require extensive reprogramming and modification to IDIS Online in addition to regulatory changes. However, these system and regulatory changes, which are already underway, will apply only to new grants awarded going forward and will not be changed retrospectively. Therefore, HUD's plan does not comply with the GAO legal opinion and allows grantees to spend HOME program funding that would normally be recaptured if the 24-month commitment timeframe was not met.

Compliance with GAO's opinion would enable HUD to better monitor grantee performance in a more timely, efficient, and transparent way. It also would strengthen internal controls, bring HUD into compliance with HOME statutory requirements, and accurately and reliably report financial transactions.

On June 16, 2015, we issued a memorandum to HUD regarding potential Anti-Deficiency Act (ADA) violations due to the noncompliance issues noted above. In the memorandum, we requested that the Chief Financial Officer (1) open an investigation and determine the impact of FIFO and the cumulative method for commitments for the HOME program on HUD's risk of an ADA violation; (2) as part of the violation, obtain a legal opinion from GAO and OMB to determine whether maintaining the cumulative method for determining compliance with the HOME statute results in noncompliance with the Statute and potential ADA violations; and (3) if HUD incurred an ADA violation, comply with the reporting requirements at 31 U.S.C. (United States Code) 1351 and 1517(b) and OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, section 145, (June 21, 2005). We determined that HUD has opened an ADA investigation in response to our memorandum.

We will continue to report that HUD is not in compliance with laws and regulations until the cumulative method is no longer used to determine whether commitment deadlines required by the HOME Investment Partnership Act are met by the grantees.

Subgrantee Monitoring

In fiscal years 2014 and 2015, at least seven of our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. HUD should continue to stress the importance of subgrantee monitoring to its grantees. OIG has concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG Disaster Recovery (CDBG-DR) funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year as this continues to be a challenge for HUD and its grantees.

OIG Prevention Activities

To assist the Department with these and other Community Planning and Development Program concerns, we are currently working with HUD staff to issue a series of bulletins similar to the topics we have issued for public housing but adapting them to Community Planning and Development program grantees. The first of the series is scheduled for issuance in May. These will also be announced through a joint communique, signed by Principal Deputy Assistant Secretary Harriet Tregoning and me, to encourage public officials to read and share the bulletins.

Compliance with the Improper Payments Elimination and Recovery Act of 2010

For the second year in a row, we determined that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, our fiscal year 2015 audit[13] found that HUD did not adequately report on its supplemental measures and its risk assessment did not include a review of all relevant audit reports. Additionally, we found that HUD's estimate of improper payments due to billing errors was based on out-of-date information, a finding that was repeated from the prior-year audit.

After exceeding the targeted improper payment rate of 3.8 percent in fiscal year 2012, HUD's goal for the targeted improper payment rate was increased to 4.2 percent for fiscal year 2013. While HUD met its fiscal year 2013 goal with an improper payment rate of 3.2 percent, with estimated improper payments of $1.03 billion, it continues to face significant challenges to comply with the requirements of IPERA and further reduce its improper payments.

For example, without sufficient funding, it will be difficult for HUD to perform the studies needed to update its estimates of improper payments due to billing errors. Additionally, there were several recommendations from our fiscal year 2014 audit report[14] without agreed-upon management decisions that had to be referred to the Deputy Secretary. During fiscal year 2015, HUD increased its efforts to address these recommendations, as well as current-year recommendations, and develop corrective action plans. HUD needs to continue its efforts to address our recommendations and improve its processes for reporting on its improper payments to become compliant with IPERA in the future.

Departmental Enforcement

A common thread underlying several of the issues discussed earlier is the lack of a cohesive departmental approach on monitoring and follow-through on findings. In an evaluation we conducted on the effectiveness of the Departmental Enforcement Center (DEC), we found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is for the most part siloed in each program office and the approaches and results differ greatly. While there were some successes, there is a much greater task that lies ahead. The DEC, working with the Office of Multifamily Housing Programs and the Real Estate Assessment Center, improved housing physical conditions and financial management of troubled multifamily properties. Although some other program offices had taken steps toward risk-based enforcement, they had not taken full advantage of the benefits demonstrated when programs allow the DEC to assess compliance and enforce program requirements. The DEC proved that it can remedy poor performance and noncompliance when programs are willing to participate in enforcing program requirements.

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[13] Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued May 15, 2015

[14] Audit Report 2014-FO-0004, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued April 15, 2014

The DEC was established in part to overcome a built in conflict of roles. The HUD management reform plan stated that program offices had a conflicting role in getting funds to and spent by participants versus holding them accountable when fraud or mismanagement of the funds occurs. However, memoranda of understanding between the DEC and the program offices, for the most part, limit the DEC's ability to monitor, report, and take action to end noncompliance.

HUD is starting to make some changes. Recent attention has emphasized the point that improvements are necessary for the DEC, REAC and Office of Multifamily Housing to effectively oversee its aging portfolio. PIH is working with the DEC to identify risk-based triggers to target monitoring, and the Chief Financial Officer is leading a Departmental task force looking at enterprise risk management. The Department should strive for a Department-wide risk monitoring approach that is data driven and supports taking actions that will end noncompliance or will seek the return of funds or other enforcement steps when corrective actions are ignored.

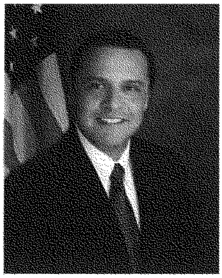
Conclusion

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and intervening economic crises, in addition to its other missions, that have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.

David A. Montoya

Professional title: Inspector General

Office: Office of the Inspector General (OIG)



Mr. David A. Montoya was sworn in as Inspector General for the U.S. Department of Housing and Urban Development (HUD) on December 1, 2011. The Department's mission "is to create strong, sustainable, inclusive communities and quality, affordable homes for all." The mission of the Office of Inspector General is to promote the integrity, efficiency, and effectiveness of HUD programs to assist the Department in meeting its mission. As Inspector General, Mr. Montoya is the senior official responsible for audits, evaluations, investigations, and oversight efforts relating to HUD's programs and operations.

Mr. Montoya's 28-year career has been dedicated to public service focused on law enforcement, with more than 17 years of oversight, supervisory and executive leadership positions, including more than 14 years' experience in the Federal Senior Executive and Executive Service. His professional career has demonstrated a rigorous focus on accountability, high ethical standards, and integrity.

Before Mr. Montoya's appointment to HUD, he served in senior-level positions for the Offices of Inspector General at the U.S. Postal Service and the U.S. Department of the Interior and as Deputy Director of the Environmental Protection Agency's Criminal Investigation Division.

Mr. Montoya is a member of the Financial Fraud Enforcement Task Force, established by President Obama in November 2009, and is a co-chair of the Mortgage Fraud Working Group, which is charged with addressing a wide range of fraud in the mortgage, finance, and housing markets. He is also a member of the Council of Inspectors General on Financial Oversight, established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which assists in improving financial oversight and evaluating the effectiveness and internal operations of the Financial Stability Oversight Council. In addition, Mr. Montoya is a member of the Executive Committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE); Chair's CIGIE's Professional Development Committee and sits on the Investigations and Information

Technology Committees. Mr. Montoya is a member of the Advisory Council and is a co-chair of the Law Enforcement Committee for the International Association of Financial Crimes Investigators and prior to his federal career worked in the private sector for Continental Airlines where he spent five years working in airport operations and sales.

Mr. Montoya is strongly committed to collaboration with HUD staff and national stakeholders to ensure that the Department's vital programs are effectively and efficiently implemented and serve the public well. In addition, he is focused on developing analytics for early detection of waste, fraud, and mismanagement through the strategic application of OIG's audits, evaluations, reviews, and investigations. Mr. Montoya believes fraud prevention is imperative at the front end and consistently coveys this message to every OIG employee.

Mr. Montoya has received many Executive Performance Awards, including a Certificate of Commendation from the U.S. Department of Justice. He is a native of El Paso, TX, and a 1986 graduate of the University of Texas at El Paso with a Bachelor's Degree in Criminal Justice.

Mr. DIAZ-BALART. Thank you, sir, and, members, we have a lot of ground to cover, and we all know that there are going to be a lot of questions, and, frankly, we are really looking forward to a lot of answers from you all. We are going to proceed as we always do, in the standard 5-minute rounds, alternating sides, and, again, recognizing members in order of seniority as seated when we began the hearing, and, obviously, both questions and answers have to be within that 5-minute time span.

With that, let me begin, and let me begin with you, Inspector Montoya. In 2015, your office has had to express yet another disclaimer on HUD's consolidated financial statements. This is becoming, frankly, a really frightening pattern, especially for a financial institution as large and as important as HUD. I asked the Secretary in a hearing to explain this issue just last week, and he believes the agency is making good progress.

Now, I remain, however, very concerned about these audit problems. So let me pose the same kind of questions that I posed to him, sir, which is, as simply as you can, can you just try to explain what is going on with HUD's financials?

Mr. MONTOYA. Well, let me start by saying, yes, I believe the Secretary and the Deputy Secretary are doing all they can to rectify the problem, but it really boils down to a lack of financial management governance. A lot of that is driven by the fact that their human capital management program cannot seem to hire people fast enough through the process, and that is how one management challenge impacts another, which is the financial management governance issue, and just a lack of real financial management governance when it relates to, for example, policies, procedures, knowing exactly how to run an accounting system. Too often, the CFO in the office is not really privy to what the program is doing. It almost sort of feels like the program is running their program however they see necessary, without regard to accounting principles.

I guess the best example I can give you is they had a gentleman that was a CFO, was doing probably a better job than we had seen in quite some time, and the gentleman has passed away. That has been some time, and there has been a lack to quickly fill that CFO position. The Deputy CFO, unfortunately, does not have a financial background. He has an IT specialist background. So even at the highest levels of the Department, you do not have the people with the financial accounting backgrounds that are needed to drive the financial management governance issues in the Department.

Mr. DIAZ-BALART. That is not exactly a vote of confidence and not something that makes me feel too much better about the way, and let me go and try to get your perspective on HUD's progress as far as addressing its audit problems. In your opinion, are things at least moving in the right direction, and how would you characterize HUD's compliance with your recommendations you talked a little bit about in the beginning, and requests for information?

Mr. MONTOYA. So I think it is getting better with regards to following our audit recommendations. I can tell you the Deputy Secretary is intimately involved in not only the recommendations we made, but certainly where we have disputes with the program offices on what should or should not be the recommendation following and the management decisions, so I will give him credit for that.

Unfortunately, they are often too slow with implementing the recommendations that we offer, sometimes taking years just to implement it. It is in draft, it will get out, it is being considered, but nothing ever seems to happen fast enough, quite frankly, for it to, in my opinion, make immediate difference, so it is a concern with that.

With regards to access, it has been pretty good except for one occasion, and it relates to the Deputy CFO, who, again, does not have an understanding of financial management and accounting issues. We do a congressionally mandated audit every year on the credit card program of the Department, and they flat-out denied us the access to the credit card system so that we could see what type of abuse or misuse was happening with the credit cards. I took it to the highest levels of the Department, and we never got clearance.

The denial came from the Deputy CFO. We tried to explain to him this is a congressionally mandated audit. It is——

Mr. DIAZ-BALART. That still remains to this day or were you able to, frankly, break that door down?

Mr. MONTOYA. Well, we never broke the door down, we went through the window, quite frankly, so we went through it by another means to get the information, so it still stands that the Department has refused us access to that. I throw that at the feet of the Deputy CFO, who, again, just does not have an appreciation for accounting principles and just the need for doing something that basic, quite frankly.

It is unfortunate, that is the one issue that has still stuck with me, quite frankly, all other issues we have managed to find an agreement, an agreed way of getting to the information, sometimes too slow for my taste, but we get there.

Mr. DIAZ-BALART. And, again, but that is not a small issue you have just brought up.

Mr. MONTOYA. No, sir, I would not consider it a small issue.

Mr. DIAZ-BALART. My time is about to run out. I have a number of different questions, and hopefully, we will get to and should be able to get to additional rounds. Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. Let me ask both of our witnesses to address issues of hiring and staffing, which you have alluded to briefly, and I would like you to elaborate. Both agencies have large numbers of employees eligible for retirement. HUD has a large number of employees with more than 20 years of service. DOT has many retirement eligible air traffic controllers as we are all familiar with, as well as safety inspectors approaching retirement. So could you describe the findings from the analysis you have undertaken in this area, first of all, the scope of the problem and the areas within the Department where it is a particular problem. It is concentrated more in some places than others, but it is a problem across government. I realize that, and so I wonder are there government-wide best practices to address this question that you are drawing on or that you feel the Departments should draw on? Do anticipated retirement patterns influence the skills development plans at your agency? Certainly they should. To what extent has that been accommodated? What action should the agencies be taking to plan for retirements? We will start with you, Mr. Montoya.

Mr. MONTOYA. Sure. Thank you for the question, Mr. Price. I can tell you that as best we can tell, more than 43 percent of HUD's career staff are looking to retire, I think as 2014, quite frankly. So you are at almost a 50 percent mark of those that can retire.

There have been a number of human capital studies done for the Department, not only by us, but GAO, NAPA, and invariably, the Department continues to be challenged to effectively manage its limited staff and hire the right people. And sometimes to the detriment of itself. One good example that I can probably give you is in the areas of Ginnie Mae, where when you are operating in financial markets, you need to be able to move quickly. In one particular case, they have yet to hire a particular finance type background person, so instead they are paying hundreds of thousands of dollars to a contractor to fill that role, as opposed to trying to hire somebody to get in to do that job.

So from the standpoint that you are using limited tax dollars, if you will, to pay high prices for contractors to do something a career person should do, it is the same issue we see in the IT arena. Much of the career staff has been lost and it is really contractors doing the job. While the CIO who is there is doing I think a phenomenal job, since his arrival about a year and a half ago, he is strapped with himself trying to hire the right skill sets. I think he has got something on the order of 11 key positions that are still lacking for him, to help him do the IT role.

It is a consistent problem through government. I am not quite sure how I could put my finger on what exactly the hiccup is for the Department. I think they are feeling that going to a shared services environment would help them. But even in that world, you still have to have career staff within your own Department that can help shepherd through a shared services environment what you need.

Mr. PRICE. Much of that could be elaborated, but let me turn to Mr. Scovel and we may return to the issue.

Mr. SCOVEL. Thank you, Mr. Price. I appreciate the question, too. Unlike HUD, my office has not undertaken a Department-wide review of retirement eligibility for all DOT employees, but what we have done instead is focus on the most critical parts of the DOT workforce, such as the acquisition workforce across the Department. We have looked at NHTSA's Office of Defects Investigations workforce, we have looked at air traffic controllers. We have also taken a look at the acquisition workforce strategy for FAA's own acquisition workforce.

In each case, each of those entities has correctly identified retirement eligibility as a looming problem. But we don't see a surge or a bow wave of imminent retirements such as to cripple the critical functions, especially on the safety side of the Department of Transportation. For air traffic controllers, it is not a secret that the number of air traffic controllers who were hired after the strike in 1981 are now approaching retirement and many have already walked out the door. The FAA has made a concentrated effort to backfill those as they go out, year after year. Until about 2012, FAA was largely successful in keeping pace with new hires and departures.

In 2012 and 2013, sequestration kind of put the bottom out of that effort. Consequently, in 2014, the agency embarked on a new hiring strategy, which resulted in fewer new hires being brought on board.

So there is a widening gap between the hiring plans or intentions of FAA for air traffic controllers and what they have actually been able to bring on. I do want to say, however, that we don't see a nationwide shortage of air traffic controllers. There are 14,000-plus at the end of fiscal year 2015. We think that is enough across the entire air traffic control system. But where we have seen gaps is at critical air traffic control facilities. We published a report recently that identified the 23 most critical facilities and where there have been gaps in staffing, some of which undoubtedly have been due to departures, resignations, and retirements.

On the acquisition side, we have identified for the Department, as I mentioned, a 22 percent retirement eligibility across the entire Department minus FAA. That is most concerning, because the Department's acquisition workforce has struggled to keep pace with the volume and the complexity of the systems and programs that it is responsible for.

Mr. DIAZ-BALART. Thank you.

Mr. SCOVEL. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you. Mr. Jolly, you are recognized, sir.

Mr. JOLLY. Thank you, Mr. Chairman, and thank you to each of you for being here. I wanted to follow up, Mr. Montoya, with your conversation about the being denied access to the credit cards. What is the scale here? How many transactions, how much in dollar amount, or in numbers of transactions were you seeking access to?

Mr. MONTOYA. Well, we wanted to seek access to the entire system for a couple of reasons. One, we wanted to be able to decide, statistically speaking, how many records we would look at, right. We also wanted to see whether the Department had availed itself of all the options that the credit card company offers for security, those sorts of things. So it would have been too easy for us to say to the Department, give us X percent of records that we can look, just a random sampling. We wouldn't have been able to get into the rest of it—what buttons have they put up for security purposes.

Mr. JOLLY. And it was the deputy CIO who denied access?

Mr. MONTOYA. That is correct.

Mr. JOLLY. This is Mr. Cook? Or is that——

Mr. MONTOYA. No, it is Mr. Hungate, Joe Hungate, Joseph Hungate.

Mr. JOLLY. And what was the rationale? What was the reason?

Mr. MONTOYA. I think he felt that it was unnecessary, that it would be a fishing expedition. We tried to tell him this is a congressionally mandated audit. You can look at exactly what Congress is looking for. It is not like we just decided to come in and audit. I think just a complete misunderstanding of again, his role, that he should be playing as the deputy chief financial officer.

Mr. JOLLY. And your recourse then internally is what, as the IG?

Mr. MONTOYA. Well, I took it to the Deputy Secretary and the Secretary and nothing came of it, so we went to the contractor directly and got access through the contractor.

Mr. JOLLY. I appreciate you sharing that. We dealt with a similar issue with this just last year, the DOJ as well with a denouncement, so thank you for that. You also mentioned in your oral statement a pretty damning evaluation if you will, you said of departmental approach to enforcement, to risk monitoring. You mentioned that the chairman is slow to respond to concerns. I mean those are some pretty significant opinions, particularly given some of the failings that we have seen, and then a failure to respond to some issues.

Mr. MONTOYA. Yes, sir.

Mr. JOLLY. It appears to me, I mean that kind of starts at the top, the culture of the Department somehow. The Secretary has to accept some type of responsibility for that evaluation that you provide.

Mr. MONTOYA. I don't disagree. I can tell you, though, that this Secretary, since the day he arrived, heeded my concerns. Many of these issues that I am talking about predate him. And——

Mr. JOLLY. So you have seen improvement under——

Mr. MONTOYA. I have seen improvement and I will give him credit for doing a joint—for putting out a joint letter with the two of us so we were talking to all staff about the importance of cooperating with the IG. So the issues that I bring up are not necessarily at his feet, although I think he is trying to change the culture. He actually did an on-camera video for the whistle blower training that we were providing the Department where he talked about the importance of whistle blower and no retaliation will be tolerated, these sorts of things. So I give him credit for that.

Many of these things are the career people that are people well below him. And to change a culture is going to take longer than the year and a half he has been there. I will give him credit for that.

Mr. JOLLY. I am sorry. I have got to cut you off. I have one more quick question and then I have something for Mr. Scovel. Mr. Montoya, your budget request is an increase of about $3 million or so over last year. Is there any delta that you feel like there is something really off the table? I know you stand by your budget request, but is there—there could always be more, but do you have any heartburn over what is not in your budget request?

Mr. MONTOYA. There could always be more. I think what I would let you know is I think overseeing two financial institutions almost worth $3 trillion is an important fact of what we do, as is the security, IT security of the system, millions of records that they maintain.

Mr. JOLLY. Mr. Scovel, a question for you and, look, this is going to be hard. I put you in a tough spot. I asked the Secretary about the allocation of competitively awarded TIGER grants and the fact that a certain percentage were going to Democratic districts as opposed to Republican. Numbers can be numbers, he pushed back a little bit. I understand that. But he said something in his testimony that was quite alarming in my opinion. He said the largest single State TIGER grant award went to Charlotte, and he acknowledged that he played a hand in consideration of that award. His testimony to this committee was that he was involved in every single award. I was more concerned about the allocation, you know, almost two-thirds, or whatever the number is, going to Democrats and one-third going to Republicans. Set that aside for a moment. Is it appropriate in your opinion, for the Secretary to be personally involved in competitive TIGER grants award, particularly when the largest is going to his home State?

Mr. SCOVEL. Thank you, Mr. Jolly. I would look, and we have looked, although not recently. Our last TIGER grant study was in 2012. And at that time we, and GAO, looked at the process which the Department was using. And that is where our focus would be: what were the measurable factors considered by, in this case, the Secretary and his entire staff when making these discretionary grants?

Mr. JOLLY. Are secretaries typically personally involved in competitive aware decisions like that?

Mr. SCOVEL. I must limit my answer to what I have seen at the Department of Transportation, and for TIGER specifically, yes. I know Secretary LaHood was as is Secretary Foxx, too.

Mr. JOLLY. Okay. Thank you.

Mr. SCOVEL. Given the unique nature of the program and the high visibility of the discretionary nature of it, in my view, it is appropriate for the Secretary to be that much involved. However, I would also recommend to the committee, as I would to the Secretary if I were to speak to him on this subject, that the process and the measurable factors to be considered need to be iron clad.

Mr. JOLLY. Okay. I will have a follow-up. Thank you for the extra time, Mr. Chairman.

Mr. DIAZ-BALART. Absolutely. Mr. Cuellar.

Mr. CUELLAR. Mr. Scovel, again, just to make sure, because I am one of those Democrats that didn't any of those TIGER grants, but I do want to put it for the records that we don't want to give the impression that Secretary Foxx is the only one doing this. Republicans are doing it. LaHood was a Republican and I am sure that other folks have done this. So this is nothing new that a Democrat is doing this. Is that correct?

Mr. SCOVEL. It is nothing new. The TIGER program, Mr. Cuellar, is fairly new within the Department. It was instituted, as the committee remembers, in the aftermath of the Recovery Act. It has attracted a lot of attention and a lot of energy throughout the Department. We are now in the eighth round and $5 billion has been allocated through this system. The Department has a pretty robust effort underway to vet and clean up as many applications as they can each round.

Mr. CUELLAR. Thank you. Let me ask both of you all, I will start off with Mr. Montoya, from El Paso, Texas, right?

Mr. MONTOYA. Yes, sir.

Mr. CUELLAR. Let us talk about improper payment eliminations Recovery Act of 2010. I have added language already in other appropriation bills about improper payments. There is some of them that have just gone to a huge amount, billions of dollars. Usually what members of Congress, what we set up is we add in set a goal, report back to Congress. If we were to add some language that would say at least do eliminate improper payments by 10 percent per year, would that be a reasonable number? I know that I believe the goal for HUD was 3.8, I think, or something like that, some-where. So if we put a higher threshold, we put 10 percent, actually telling HUD and the Department of Transportation on their improper payment, would that be something reasonable that they could accomplish?

Mr. Chairman, the reason I am asking that is we know there is improper payments, and I think the problem is, like for example, HUD, they are talking about having out-of-date information, and those type of billing errors. Would 10 percent be reasonable? And I will ask both of you gentlemen that question, and if you want to take, Mr. Montoya, the first and then Mr. Scovel after that.

Mr. MONTOYA. Thank you, Mr. Cuellar, for the question. It is difficult for me to say, sir. I can tell you that previously their percentage was a lot higher. When they didn't meet it, they decided to lower it to make it something they could reach and they did reach it just last year. But they are still into the billion-dollar mark when you talk about improper payments.

The concern I have as an IG is I think I am one of the only IGs who doesn't do the investigative work on IPA with the Department. The Department does its own investigations on violations of improper payments. And it looked like they did reduce it from $5 billion to $1.2 billion over the last 8 to 10 years, so they have made some, definitely some significant recovery, but it is still——

Mr. CUELLAR. But even the last 10 years, that means we paid billions of dollars.

Mr. MONTOYA. Yes, sir.

Mr. CUELLAR. For improper payments.

Mr. MONTOYA. Right.

Mr. CUELLAR. And the reason I am saying it, I am glad they done that, but what are we supposed to do as the oversight, provide oversight through the appropriations when we see agencies that are just every year they are paying billions of dollars of improper payments? What, if you were sitting over here, what sort of language would you put in if there is anything possible that we could add?

Mr. MONTOYA. Well, it goes back to——

Mr. CUELLAR. Again, to both of you all.

Mr. MONTOYA. I beg your pardon. It goes back to something I said, and that is this lack of enterprise approach to what is going on in the Department. It is too siloed, It is sort of every silo for itself. There is not this enterprise approach to really what is going on, how can we get a handle on improper payments from an enterprise-wide perspective as opposed to just each program doing its own thing?

It is certainly something I could think about and then get back to you, sir. I don't know that I have got an answer for you at this point in time.

Mr. CUELLAR. I would appreciate any language on that. And Mr. Scovel, and then my time will be up, but, Mr. Chairman, there is other committees that do the same, I mean other agencies. It is just a huge problem to the taxpayers, in the billions of dollars. But Mr. Scovel, I am sorry.

Mr. SCOVEL. Thanks, Mr. Cuellar. You are right. It is a huge problem at the Department of Transportation. It is a problem and remains a problem despite the Department's best efforts. Our focus from the OIG has been on examining the system of internal controls that several of our most financially well-endowed administrations are responsible for, particularly with regard to FTA and Federal Highways, because both of them operate more with grants than they do with procurements or contracting themselves. And as the committee knows, once a grantee has been approved, the grantee for a particular project, that grantee may draw down on its own from funds that the Department has custody of.

The level of oversight in that drawdown process is absolutely critical. Both highways and FTA have control mechanisms in place, but, frankly, when we have looked at them, they haven't been wholly sufficient. Over time and many reports, we have tried to recommend improvements in those controls.

Mr. CUELLAR. Mr. Chair, my time is up, but I would just ask the chairman and the ranking member that, you know, as they said there was a higher number, so they didn't meet it, so, oh, okay, let us make them look better. So, not you all, but let us lower the amount because they couldn't meet it. I would love to work with you all on improper payments because I don't think it is fair to the taxpayers when we are talking about billions of dollars every year. But anyway, thank you for the good work.

Mr. DIAZ-BALART. Again, well stated, Mr. Cuellar. Mr. Young, you are recognized, sir.

Mr. YOUNG. Thank you, Mr. Chairman, and Mr. Montoya, gentlemen, welcome today. In your testimony, Mr. Montoya, you reference an audit that showed over 25,000 families living in public housing exceeded HUD's income limits. In your testimony, you say, "this was exacerbated by the public housing agencies lack of desire to address these issues themselves." When you say "lack of desire," can you elaborate on that? Is it they just don't want to do it, there is an incompetence there, they have got a policy indifference? Can you just elaborate on what "lack of desire" means?

Mr. MONTOYA. Yes, sure, and thank you for the question. What we have seen on the over-income, what I want to make sure we are clear on is these public housing authorities have had the authority since at least 2004 to remove those high-income earners from public housing. Often we have heard that the reason they haven't done it is because to do that takes away from the additional rent that they are able to make off the higher salaried families. So that is one issue. So it is a choice.

The other thing we have heard is they don't believe they have the authority to do so, although we feel that they do. It also boils down to just the lack of knowledge and experience by either the public housing director, the staff, the boards, to understand what their roles and responsibilities are and what the regulations say, so it is a number of those different issues.

Mr. YOUNG. So, you feel they have the authority?

Mr. MONTOYA. Yes, sir.

Mr. YOUNG. They feel they do not have the authority?

Mr. MONTOYA. That is correct.

Mr. YOUNG. So, it is just going to mean another stalemate? What happens?

Mr. MONTOYA. Well, the Department right now is going through a Notice of Proposed Rulemaking to determine what that balance would be for significantly over income households and what time line would be considered for removal from public housing.

So, I think there is an effort to make it more clear that they do have the authority, and to create a regulation or law that says, you know, you will do this when these sort of things are met.

Mr. YOUNG. Regarding the status of HUD's financial records, this is very disturbing. I think we can agree without an adequate assessment of HUD's finances, smart decisions on spending and identifying areas of waste and duplication become nearly impossible.

How can we be an effective oversight committee, as well as an appropriations committee, if we cannot see what the heck is going on here with their finances?

Do you have any confidence their books can become auditable, and are there some general accounting principles that they adhere to that you know of at all? Because it is making your life really difficult to figure this out, and that does not help us.

Mr. MONTOYA. Yes, sir. Thank you. You know, I want to give all the credit to my financial audit division. They do a phenomenal job, highly trained individuals, and very dedicated. We have been putting them through their paces.

It is going to be a number of years before HUD gets their books in order to such a degree that they can come out of disclaimer, it is my belief.

I believe that the Department, with the assistance of Congress, has to have the ability to hire the skill sets they need, and I will give you an example.

With regards to Ginnie Mae, there is at least 30 positions that we estimate that really should have a salary range that is greater than the General Schedule, because what you are competing against is people in the financial world. We really just cannot compete with hiring those highly specialized skill sets who operate in a very fluid financial market when you are only offering GS scale.

In fact, I can tell you just recently, they lost two of their key staff accounting auditing people to the Federal Housing Finance Agency because they do pay higher salary ranges.

So, we are always going to bump against that unless Congress and the Department get to a point where they can agree, okay, not everybody in Ginnie Mae but at least 30 key positions should be higher salaried.

The reason I say that is just recently, they had to do a restatement of the financial audits we had just done because they were able to determine $1.9 billion had been misstated. Now, that is quite a bit of money to have misstated.

So, these are the concerns we continue to experience. I do not think we will get out of disclaimer this year, from what we have seen, and it is not just Ginnie Mae, it is again how the programs run their programs.

The idea that PIH had this first in/first out methodology of how they were going to account for funding is the other reason we gave them a disclaimer.

So, a number of issues there that all boil down to, you know, human capital, and the ability to hire the right people quickly.

Mr. YOUNG. You say it could take a number of years for them to get their books under control. Do you want to estimate as to is that 3, 13, 30 years?

Mr. MONTOYA. I could not give you a number. I can tell you that right now with regards to what the Department is doing with their accounting on this FIFO prospectively, but not retroactively, so we are going to have to wait, if they do not do it retroactively as well, we are going to have to wait for all that to kind of make its way through the pipeline before we get to a clean set of books.

I could not fathom a guess. I would hope before the next administration after the one that will be elected this November.

Mr. YOUNG. Thank you for your testimony and for being here, both of you, gentlemen. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you. We have a lot of questions. Before I go to Mr. Scovel, let me follow up with you, Mr. Montoya.

You raised a lot of issues now, but also in your written testimony. You mentioned how long things take.

I will tell you, however, I was shocked and discouraged to read that you mentioned in your testimony that since 1991, OIG has reported a lack of an integrated financial management system. You also mentioned that later. That is a quarter of a century.

Here we are trying to figure out why we cannot get HUD and their accounts in an accurate manner. They simply cannot even answer how many FTEs they have on board right now.

Here is the question. How do we get HUD—I mean all of HUD—you mentioned how it is siloed, right, all of HUD to get off the dime and take what is pretty much a basic responsibility seriously.

I do not have to tell you that, that if we do not, HUD will never be a responsible financial management platform, to create one or deal with one, and you mentioned the risk of that, and retire those old spreadsheets and that legacy system.

Again, how do we get HUD to get off the dime and take this very basic responsibility seriously, and what is the answer here? Again, you mentioned about your frustration about how long it takes. This issue, we are talking about a quarter of a century.

Mr. MONTOYA. Yes, sir. I think it is a cultural thing. I think it is just the culture that was created at HUD where silos and programs ran on their own without regard to the larger organization.

So, I can tell you that I think Deputy Secretary Coloretti and the Secretary understand the enterprise risk approach. There is some movement finally with regards to enterprise views of things, we have seen that. It is very encouraging to me, but you are talking about a very well entrenched long-term culture that needs to be changed, and unfortunately, there will be an administration change very shortly, and whatever momentum——

Mr. DIAZ-BALART. Go back to potentially square one, right?

Mr. MONTOYA. It is absolutely going to go back, it is going to be like that void, everything is just going to retract quickly. That concerns me.

Mr. DIAZ-BALART. Yes. Let me now turn to you, Inspector Scovel. One of the most important functions performed by DOT is identifying defective vehicles and things like that. You mentioned that in your testimony, hopefully recalling them before folks are injured.

You know, we recall the hundreds of injuries and deaths linked to the General Motors' ignition switch failure, which really kind of demonstrates why this capability is, frankly, so crucial, right? You are literally dealing with potentially people's lives.

In 2011, you audited DOT's Office of Defects Investigation, and you talked about that a little while ago. Then last year, in the wake of GM's recall, you conducted a second audit. Now, looking at these two audits together, what are the key findings? What are the key findings about DOT's defects investigation capabilities, and what should be the top priority to try to improve that obviously very important capability?

Mr. SCOVEL. Thank you, Mr. Chairman. My office has done some groundbreaking work when it comes to NHTSA's Office of Defects Investigation and their important efforts to ensure motor vehicle safety for American travelers.

You are right, in 2011, about the time of the Toyota sudden unattended acceleration debacle, our office was asked by then-Secretary LaHood to take a look at NHTSA ODI and examine a number of specific aspects of their operation.

We did that. We made a series of recommendations, which we were able to close after assuring ourselves that the proposed actions by NHTSA to fix the problems we identified in ODI were in place.

In 2014, Secretary Foxx asked us to take another look at ODI. This was in the aftermath of the GM ignition switch problem that you mentioned. We did that. This time, we looked at the pre-investigations' actions or activities of ODI, and we found significant deficiencies to the tune of 17 recommendations. But also in conjunction with this latest effort, we went back, frankly, because we thought some of the problems that we had identified in 2011, if the fixes that we had recommended had been properly implemented, they should not have come back.

We went back again to look at the implementation of our 2011 recommendations. What we found was disturbing. The actions proposed by the Agency had been sufficient in our view at the time, but the quality of implementation, the consistency of the implementation, had been sorely lacking.

A couple of key examples, one fairly major and one fairly minor. We recommended that a detailed training program be established for key positions within the Office of Defects Investigation. We got the paperwork back and it looked okay to us at the time to ensure that was what would happen going forward.

When we went back to check on whether that had actually been implemented, it had not, and that was the finding in one of our follow up recommendations, follow up audits from last year.

A more minor recommendation or finding that we made, looking back again to our 2011 report, was taking care of the paperwork within ODI. We had found that reasons for the Agency to have delayed in making key findings, safety findings, with regard to possibly defective vehicles, were not being documented.

As a result, Agency leadership did not know, and the public did not know, what the status was of a particular investigation and why it was taking so long.

So, we simply recommended they document the reasons for the delay. They presented us a plan of action that indicated it would take place. When we went back and double checked, we found that it had not been taking place 70 percent of the time.

We were looking simply for 90 percent sufficiency, and that would have satisfied us as to consistency of application. We found instead 30 percent application.

So, significant shortcomings across the line.

Mr. DIAZ-BALART. That is very troubling though.

Mr. SCOVEL. It is.

Mr. DIAZ-BALART. Very troubling.

Mr. SCOVEL. I can tell you that we have the attention of NHTSA and Secretary Foxx's attention is still on ODI. I do wish to give the Department and the Agency credit in that regard. In fact, I have met several times personally with the administrator.

I know that his key program people from ODI continue to meet a couple of times a month now with my audit team, because they are focused, as the saying goes, like lasers, to try to make a June 30 target action date to close off our latest set of recommendations.

Mr. DIAZ-BALART. Let me interrupt you on that, a bit of good news, I guess, a high note, to recognize Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Scovel, let me first return to a matter that was raised earlier, and then I want to follow up on another matter with Mr. Montoya.

Insinuations were made earlier regarding the TIGER program, and I want to just give you a chance to respond here. I want to confirm, I suppose, that you have never found evidence of improper procedures or any kind of partisan screening of applications in the TIGER program?

Mr. SCOVEL. Mr. Price, we have not looked for partisan activities regarding screening. I can tell you a major finding from our 2012 report was at the tail end of TIGER projects, what were the performance measures that the Department was able to identify and require of grantees, and how would those be aggregated or rolled up into an overall evaluation of the success of the TIGER program.

That is a recommendation that is still outstanding for us. We have not been able to find evidence that the Department has acceded on that one yet.

Mr. PRICE. Have you ever found improper or unusual intervention in the decision process by either Secretary LaHood or Secretary Foxx?

Mr. SCOVEL. We have not conducted a study under Secretary Foxx. Our first 2012 report was with then-Secretary LaHood. At that time we recommended process improvements, but we found no evidence, as you put it earlier, of partisan involvement or motivation.

Mr. PRICE. Is there any reason that the Secretary by virtue of Charlotte, North Carolina being his home town, should rule out the possibility of any kind of TIGER grant to that city? By the way, I understand they have had one TIGER grant. Would there be anything improper or informal or formal law or procedure that would suggest that Charlotte should be ruled out by virtue of the Secretary's home town?

Mr. SCOVEL. I am not aware of law or procedure that might lead the Secretary to recuse himself or to sit out a decision on a Charlotte application, for instance.

I can say, however, in the exercise of good judgment and prudence, might a deciding official be concerned with perceptions? Of course. If a deciding official were to resolve that to his satisfaction, based on the overall process and how such decisions and actions had been considered in the past, then he might proceed.

I do have to say again, Mr. Price, we have not looked at the TIGER grant program specifically since 2012.

Mr. PRICE. So, you have no information about recusal or anything else with respect to the Charlotte decision?

Mr. SCOVEL. I do not.

Mr. PRICE. All right. Mr. Montoya, you had limited time to answer my question about the retirement numbers at HUD and the difficulties in recruiting new employees, particularly at higher levels for these jobs.

It seems to me just on the face of it that the problem is rather different from what we have heard described at DOT, where you can identify particular categories of employees where the numbers are low, alarmingly low, and the reasons for that, and the mitigating training programs and other things that might be undertaken.

With HUD, it seems to be a more generalized problem. First of all, is that true, and how would you assess that? Are we talking here about public service somehow being degraded, devalued, less attractive than it has been for the kind of people who we need to attract than other comparable jobs? Are there pay issues here that help account for this?

I want to give you a chance to explain what you described, in other words.

Mr. MONTOYA. Yes, sir. Thank you for the follow up question, Mr. Price. I think it starts with a number of things. One, I think the human capital, how best to hire, how quick to hire. I do not believe it is an issue of people not wanting to come into government service. I personally think that HUD has a noble mission. When you think of the fact that their mission is to help, care, and tend for those who are less fortunate than us, I think it is a noble mission. I do not believe it is that.

I think it is just the lack of any urgency, quite frankly, in particular areas. I think in others, it is a financial consideration, like Ginnie Mae that I spoke to earlier.

You know, I want to clarify something that I said earlier when I said "the CIO office," the "Chief Information Officer," is lacking a lot of highly skilled sets, the correction I want to make is it was the Chief Financial Officer's office who is lacking 11 key positions.

So, they all seem to be lacking quite a few numbers of key positions, which I do not think is a pay issue because everyone else is sort of fighting for the same positions, I think it is just a lack of any urgency to get these positions filled.

Mr. PRICE. Thank you.

Mr. DIAZ-BALART. Thank you. Mr. Jolly.

Mr. JOLLY. Thank you, Mr. Chairman. I appreciate the comments from my colleague from North Carolina, certainly my friend, Henry.

Look, I realize it is not a comfortable conversation, but for the record, you have not looked into that decision, and this is not whether or not it was affiliated by party. This was whether or not a Secretary should have recused himself from the largest single State TIGER grant award being given to his home city.

Following on the heels, the IG had not recently looked at it, the GAO had, and it said the Department had failed to document key decisions regarding TIGER grant awards, including making awards to projects with less technical ratings than others.

In the GAO report, it said there was insufficient accountability measures within the Department, and the very week of the announcement, in the Secretary's words, his words, his quote, "The President and I are giving this region $25 million." So, clearly, the Secretary prioritized a grant to Charlotte in a way that raises questions of the oversight authority of this body and frankly this subcommittee.

The Charlotte Observer, the day that he made the announcement said "Despite the $25 million, the project remains in limbo. We are still uncertain where matching money will come from. We are still uncertain what the amount is."

Now, the TIGER grant applications I have seen, one of the predicates is ensuring there is a local sponsor that has the funds necessary to match the Federal award, but even that was uncertain.

So, the question I ask is not party related. I appreciate you clarifying that past Secretaries have done that. I appreciate that. It is that this was the largest single State award to the Secretary's home city, where the reports that they were unsure where the matching money was going to come from, and the project itself, the week it was announced, was termed to be "in limbo."

It is appropriate for this subcommittee to ask those questions. It is an uncomfortable conversation, but to the extent that your office continues or is contemplating future study into the TIGER grant award process, I think it is relevant, certainly in the opinion of this member, and certainly given that the decision to award had not been granted in the past to Charlotte, but was granted in what is essentially the Secretary's last year in this administration on his way out the door.

So, I appreciate respectfully the difference of how we see this issue, but I do think we have a responsibility on this subcommittee to ask the hard questions.

Mr. Chairman, I yield back.

Mr. DIAZ-BALART. Mr. Quigley, you are recognized, sir.

Mr. QUIGLEY. Thank you, Mr. Chairman. In 2014, an FAA contract employee deliberately started a fire that destroyed critical equipment at the FAA's Traffic Control Center in Aurora, Illinois. Thousands of flights were delayed or cancelled at the cost of $350 million to the industry and the flying public. It took weeks to get back to normal.

As a result, obviously, we are still concerned about DOT's ability to protect against insider threats, and the fact that it took so long to get back to normal, there was not an immediate transfer of certain responsibilities and tasks when this incident took place.

So, what have we learned, and how are we better equipped today to meet such a challenge?

Mr. SCOVEL. Thanks, Mr. Quigley, and I appreciate your interest certainly in that particular facility. I know you and your staff have read our critical facilities report on the Chicago Tower, the Chicago TRACON, the Chicago Air Route Air Traffic Control Center, all in or very close to your district, so you have a personal interest in it.

FAA immediately undertook a review, as they should have, and laid out for themselves a series of steps in order to make their air traffic control system across the board and not just at that one particular facility be more redundant, more resilient, more flexible, and more survivable.

The insider threat is among the most if not particularly the most difficult threat to guard against. We could consult any Agency, including right down at the bottom of the hill over at the Navy Yard, when a contractor in an incident somewhat similar to what happened at the Chicago facility, used his i.d. card to get through the gate and into the building, and killed a dozen people some years back.

This employee at the Chicago facility had similar mayhem in mind, and in fact, even after he cut the cables and set the fire, took steps to try to kill himself on the scene, too.

We, and I say "we," I think probably the majority of Americans, thought FAA would have been better prepared in order to shift air traffic control responsibilities. Clearly, they could not, and it has been an eye-opening experience for all of us in the traveling public, as well as for the Agency, because the Agency had in place back in the mid to late 2000s a system so they thought they could switch air traffic control, specifically at en route centers.

It would have been somewhat difficult. It would have been complicated, but at least we had been led to believe it would not have taken over 2 weeks.

For a host of reasons, FAA was not able to do that, complications of airspace, of technology, having surpassed the backup systems that were already in place, and the need, quite frankly, for air traffic controllers to be fully up to speed on the sections or sectors of the National Airspace that they are responsible for.

So, it is not as easy as whistling in replacements from other parts of the country or shifting airspace responsibility to other sectors without the kind of detailed training that FAA requires its air traffic controllers to go through.

It is a complicated problem. We are monitoring FAA's efforts to try to get it right this time, and to keep pace with the problem, not be overtaken as it was before.

Mr. QUIGLEY. Do you have some sense there are concrete things that you can point to that we will do better in terms of shifting this, if Heaven forbid, this were to happen again, intentional or not?

Mr. SCOVEL. Right. To give you a proper answer, sir, I would need to go back and consult with my staff. We would need to check with FAA. We would be happy to do that. It is a significant problem given the nature of insider threats at large, and the vulnerabilities of air traffic control management for the National Airspace.

Mr. QUIGLEY. And this was an insider attack, but we live in a world where that may not always be the case. So, I would appreciate it if you could get back to my office or share with the committee exactly where we are and what we still have to do to protect the traveling public.

Thank you, and I yield back.

Mr. DIAZ-BALART. Thank you very much, important questions. Mr. Cuellar.

Mr. CUELLAR. Mr. Jolly, no discomfort, I just wanted to make sure that we do not give the impression we are being partisan in asking those questions. I have no idea what Mr. LaHood did, and I just want to make sure that we follow the proper procedures on everything, and that is my question, so do not worry about me.

Let me just say this, going into the strategic plan and performance measures, one of the problems I have had with Agencies, and especially if you look at Performance.gov, is the Agencies measure more the activity than the actual results.

Could you both tell us how those two Agencies, the Department of Transportation and HUD—are they measuring more activity than performance? The reason I am saying that is because if we give them $1.00 for TIGER grants, wherever they might be, I want to know what bang for the dollar am I getting for that $1.00.

So, Mr. Scovel and Mr. Montoya, tell us a little bit about what exactly, looking at their strategic plan measures, are they measuring more activity or more results?

Mr. SCOVEL. Tough question, Mr. Cuellar. I appreciate it. As the committee well knows, the Department, and specifically Federal Highways, has been tasked to institute a far more rigorous performance-based management system for the Federal Aid Highway program. Federal Highways is in the process of doing that. They are nowhere near yet done.

It is a complicated process, and it involves rulemaking, and I know the members of the committee have heard that before from others from the Department, how complicated and how difficult it can be, the time required, in order to follow the legal requirements to put a new rule in place.

So, that is one key area. I would say that if you are measuring activities versus performance, sure, that is a problem for DOT and probably looking across the board at most government agencies. It is what we can collectively measure and identify and hold up, whether it meets expectations as far as a measurement of performance, or accomplishment, or achievement, or delivery to the Congress and to the taxpayer. It is a different question.

When agencies like Federal Highways or the Federal Transit Administration open up grant programs and try to fund major infrastructure projects across the country, and I have in mind a couple in New York that are overbudget and far over time, those kind of results are apparent, too.

The project does get done in the end, but it is overbudget, over time, and you hope it lives up to the specifications.

A little bit different, I think, for an Agency like the Federal Aviation Administration, which actually operates a system day in and day out, the air traffic control, air traffic management system, and all of us can see that in action, but the other long-standing projects that other Agencies and the Department are responsible for, much more difficult, and the Department finds it much more difficult to present measurable performance achievements to the Congress and the public.

Mr. CUELLAR. Bottom line, is it more activity or results?

Mr. SCOVEL. More activity, quite frankly.

Mr. CUELLAR. That is what I thought, I mean at least what I have seen on Performance.gov. Thank you. Mr. Montoya.

Mr. MONTOYA. Thank you for the question, Mr. Cuellar. The best example I can give you is the Moving to Work program that Congress has just recently authorized the Department to expand by 100 public housing authorities.

For the last 20 years, there have been 39, in essence, public housing authorities in the Moving to Work program, which allows for locally innovative new ways of performing housing and self sufficiency, and these sorts of things.

The problem is in 20 years, they have never had a performance measure. I do not think we have ever had one as an example of what exactly came from this program that basically has a lot less rules and a lot more flexibility to it, and Congress has just expanded it.

We have serious concerns that is ever going to be successful. Quite frankly, out of the 39 Moving to Work housing authorities that have been in the program, we have investigated five of them under at least 23 different investigations for the abuse, fraud, mismanagement of that program because of the lack of oversight that the Department has provided.

So, that is one example of more about the activity than performance and success.

Mr. CUELLAR. My time is up, but Mr. Chairman, as you know, you did performance measures in Florida. I did performance measures in Texas. I am sure a lot of the members if they were in the State legislature, they saw how those States were living laboratories for measures. You do not have to invent the new world. I wish we would follow more what the States are doing on the measurements.

Members, David, and everybody, if you want to just look at Government.gov—Performance.gov, and you see some of the measures there, it is amazing. Some agencies are doing better than other ones. Just wanted to ask you to take a look and you would be surprised at some of the measures. It is mainly the most activity, measuring activity than results.

Mr. DIAZ-BALART. When you say "surprised," you are saying it in a good way or not in a good way?

Mr. CUELLAR. Not in a good way.

Mr. DIAZ-BALART. All right. Mr. Yoder, you are recognized, sir.

Mr. YODER. Thank you, Mr. Chairman. Gentlemen, thanks for your testimony today. I apologize I was not here for the totality of it. There is another hearing going on that I an engaged in at the same time.

I apologize if I ask a question that has already been addressed, and you can point that out if you like.

I have a question for Mr. Scovel regarding the Federal Aviation Administration's action to address recent outages in the En Route Automation Modernization System, ERAM. I guess the FAA declared ERAM fully operational at all 20 en route air traffic control facilities in 2015, but since then, the $2.7 billion system has experienced a number of outages, most recently at the Washington Center in August of 2015, that resulted in delays and cancellation of hundreds of flights, affecting thousands of passengers, according to the office's announcement, which said an audit would begin within a few weeks.

So, I understand there is an audit going on, and ERAM is to replace aging air traffic control hardware and software facilities that manage high altitude aviation traffic, but it is expected to provide the infrastructure for a range of new capabilities associated with NextGen.

So, I want to know are we ready for that? What is the audit showing about the current complications we are having, and what can I tell folks back home?

Mr. SCOVEL. Thanks, Mr. Yoder. Great question. ERAM is absolutely essential to the success of NextGen. It is a foundational program. It is what the controllers call their "automation tool," so they can actually separate aircraft, high altitude, long distance aircraft, safely.

It has to mesh with a number of other systems in order for the entire air traffic management system to function properly.

Our audit is ongoing. I cannot tell you what the most recent problems for outages and slippages have been, but I can say that overall, we have had ERAM under our microscope for a long, long time, because if we were to point to a poster child, if you will, within FAA, or an acquisition program that was misconceived and mismanaged virtually from the start, it would be ERAM.

It has struggled under a cloud from its inception. We have identified four or five signal concerns with FAA's major acquisition projects, some of them dating back to the 1990s. The Agency had made efforts to rectify some of those earlier programs, but when the ERAM program was instituted, it seemed the old skeletons came back out of the closet. Everything from overly ambitious plans to unstable requirements, and that would probably be the most significant one.

An inability for the tech center in New Jersey to fully test the system before it was accepted by the government from the contractor, so the government ended up accepting the program without having thoroughly tested it.

Incentive fees, $150 million, when the program was running more than 4 years over time, $458 to almost $500 million, total cost overrun. Unrealistic cost and schedule estimates. A system that had been promised to have been rolled out within a year or two and ended up taking 4 or 5 years.

So, as I said, it has been a signal problem effort for the Agency, but it is one that they absolutely must get right because without it, NextGen does not stand a chance, and there is nothing else.

Mr. YODER. When do you expect your audit to be completed?

Mr. SCOVEL. Mid-summer to fall. I will check with the audit team, and if I might get back to you, sir.

Mr. YODER. Yes, that would be fine. Would you expect there would be recommendations that Congress would need to take up in order to resuscitate or resolve many of these concerns that you have raised?

Mr. SCOVEL. Perhaps, but not necessarily. I do not want to whet your appetite, the Congress' appetite. Our recommendations, as they typically are, are keyed to the Agency. Certainly, I would invite this committee's continuing strong oversight as the Congress has never failed to exercise when it comes to FAA matters. I would certainly be looking for that kind of help.

Mr. YODER. So, it sounds like this is an example of mismanagement in a way that not only do we need to spend our time boiling this down to find out where mistakes were made, how they can be corrected, but how we can use this as an example to ensure that this type of result does not happen again.

Mr. SCOVEL. Absolutely.

Mr. YODER. Right. Thank you, appreciate your testimony. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you very much, Mr. Yoder. They have called votes, so unfortunately, we will not have time for another round.

Let me just take this opportunity to thank both of you and your staffs. I think these hearings are the most important hearings that we do, and I think your work is exceptionally invaluable and important. Please feel free to contact us directly on any other issues—again, there is nothing more important than what you all do.

Again, thank you, Mr. Scovel and Mr. Montoya, along with your staff, for again your participation and your forthright answers.

The committee staff will be in contact with both your budget offices regarding questions for the record. I know I have a number of questions to submit. I can tell you that I think a lot of other members will have them as well.

If you would please work with OMB to return the information for the record, to the committee, within 30 days, please, from Friday. We will then be able to publish the transcript of today's hearing.

Again, your information is invaluable to allow us to make informed decisions when crafting the fiscal year 2017 bill.

I do ask of you also, anything else, please feel free to contact us. It is crucial.

With that, Mr. Price, any final comments?

Mr. PRICE. Mr. Chairman, I just want to add my thanks as well for the forthrightness of the testimony we have heard today, we will find it very useful. It is a good idea to have these two appear together because we get some sense of comparison, of how agencies operate, which is always useful.

Thank you.

Mr. DIAZ-BALART. Thank you, Mr. Price. I thank the members of the subcommittee, and as you can tell, gentlemen, there is a lot of interest, so let's stay in touch, and we look forward to continuing working with you.

At this time now, we will adjourn the subcommittee. Thank you very much.

U.S. Department of Transportation - Oversight and Management
Fiscal Year 2017 Questions for the Record
Chairman Mario Diaz-Balart
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Diaz-Balart #1

Rail System Safety

Mr. Scovel, safety performance has improved in the rail transportation system. Accidents, deaths and injuries have declined significantly since the 1990's. FRA's congressional justification states that "the rate of safety improvement has slowed, and current safety strategies are approaching their effectiveness limits," and further states that "significant resources are required to continue improving rail safety…'' I must note here that the President's budget increases the rail budget by 273 percent from the FY 2016 enacted level.

Question: Do you agree that current safety strategies are approaching their effectiveness limits?

Answer: FRA's accident data reflect that safety has improved for 10 years, but the rate of improvement has slowed for the past 5 years. While this trend could indicate that current safety strategies are approaching their effectiveness limits, we have not conducted any related audit work that would support this conclusion. That said, FRA and the railroads appear to be moving to a preventative approach to safety by emphasizing risk assessments, facility audits, accident investigations, railroads' development of internal control plans, and improving data that could be used for predictive modeling.

Mr. Diaz-Balart #2

Rail System Safety

Question: Is there a way to increase safety of the railroad system without increasing the rail budget by 273% as the President's budget requests?

Answer: We have not specifically examined the impact of an increase in FRA's budget on railroad safety. Nevertheless, we have noted areas where FRA can make better use of its existing resources. For example, we recently reported that FRA has not conducted an evaluation of risks associated with hazardous materials transportation that includes national-level risks to target inspection resources.

Mr. Diaz-Balart #3

Rail System Safety

Question: Where do you believe the most gains can be made – where can we get the biggest bang for buck?

Answer: A common theme expressed by FRA officials in recent audits is the need for more inspectors in the field and more headquarters specialists to provide oversight of major issues such as positive train control. We have not reviewed the degree to which FRA's desire for more staff is supported by a valid workforce assessment. However, FRA can better target its current inspection resources by implementing seven recommendations we recently made to help FRA improve risk assessments associated with allocating inspection resources and address concerns about the use of civil penalties and lack of criminal case referrals to OIG.

Mr. Diaz-Balart #4

FRA Does Not Consider National Risk Factors When Allocating HazMat Inspectors

Mr. Scovel, your February audit found that FRA has no overall understanding of the national risk environment associated with hazardous material transportation. As a result, FRA cannot be sure that the regions consider all appropriate national risk factors as it allocates HazMat inspectors.

Question: How can FRA do a better job of allocating its inspectors based on appropriate risk factors on a national level, and what impact will this have on safety?

Answer: FRA relies heavily on its regional specialists to allocate inspectors. These specialists are experts, but their focus, appropriately, is on responding to risks in their region. While specialists are knowledgeable about inspection results and problems in their local area, they may not be fully aware of larger-scale risk factors, such as the condition of transportation infrastructure or the proximity of routes running through their region to population centers in other regions.

To address this situation, FRA headquarters can provide a clear explanation of what data are incorporated into the allocation and planning tools it provides to regional specialists. In addition, FRA can conduct a comprehensive risk assessment that will inform regional specialists about national trends and risks reflecting safety problems, which can then be addressed by inspections in specific regions.

Mr. Diaz-Balart #5

Hazardous Material Regulation Violations and Referral to the OIG

Mr. Scovel, your February audit of FRA's oversight of hazardous materials shipments found that FRA does not refer hazmat cases to the OIG for criminal investigations. A sample of violations identified 17 cases that warranted referral to OIG for criminal investigation. These included repeat or egregious offenses, falsifications, bodily harm or environmental impact. I believe the recommendation to address this issue can be implemented with very little cost.

Question: What impact will this have on the safety of the rail system?

Answer: We believe that referral of hazardous materials cases to OIG for criminal investigation will have an impact on public safety. The threat of criminal prosecution to those who egregiously violate hazardous materials regulations serves a very important deterrent effect and promotes safety of the rail system. Companies and individuals are more likely to follow safety rules if there is a possibility of criminal prosecution when they intentionally violate the rules. Without criminal enforcement, companies are also more likely to treat civil penalties imposed by FRA as simply a cost of doing business.

Mr. Diaz-Balart #6

MARAD Sexual Harassment

Mr. Scovel, in December 2015 your office reported that weak management controls hindered MARAD's ability to meet its mission.

A most troubling aspect of that December 2015 audit was the findings on MARAD's handling of sexual harassment and assault claims at the US Merchant Marine Academy, and the delays in issuing the required reports. The Senate is so frustrated with MARAD's delays, they included a $100,000 per day fine for every day the harassment report was late. MARAD comes in to say there are issues with the dates and timing on getting the data and compiling the report.

Question: Are there issues with how the reporting deadlines are structured? Or are the report delays due to internal DOT roadblocks? Can you tell me why this is always an issue?

Answer: We have not reviewed MARAD's reporting process since 2014. At that time, we found the reports to Congress were delayed because MARAD lacked a plan with milestones to ensure timely reporting. In response to our October 2014 recommendation, MARAD developed a plan to deliver annual reports to Congress for the prior academic year—which runs from July 1–June 30—by January 15 of the following calendar year. Since then, MARAD has met the reporting requirement by issuing preliminary reports based on partial survey or focus group data and following up with a final report when the complete data are available.

Mr. Diaz-Balart #7

MARAD Sexual Harassment

Question: Since the DOT Inspector General issued its report in October 2014, what progress has the USMMA made in implementing its sexual assault and harassment goals?

Answer: Since we issued our report, the Department and MARAD have fully implemented the nine recommendations we made related to USMMA's achievement of the goals in its original action plan, timeliness of the Academy's annual reports, and oversight of the Sexual Assault Prevention and Response (SAPR) program.

In response to a congressional mandate, we are currently assessing USMMA's progress on implementing its 2014–2015 action plan to address its goals. That plan contained 44 action items, 37 of which MARAD assessed as complete in November 2015. We expect to complete our work later this Spring.

Mr. Diaz-Balart #8

MARAD Accounting

The THUD bill contains a series of provisos requiring the Academy to obtain the Secretary's sign off on expenditures. This unusual requirement was added years ago after MARAD's own CFO notified the Congress and GAO of some accounting inconsistencies, which GAO found to be a pervasive and intentional system of ADA violations designed to defraud the Federal government.

Question: Have you recently audited the financial controls up in King's Point?

Answer: MARAD currently does not have authority to directly enter into contracts due to the Agency's past anti-deficiency violation. We have not performed any recent audits of the financial controls at the U.S. Merchant Marine Academy due to the low risk.

Following a 2008 internal MARAD report, which concluded the Academy lacked adequate controls to comply with laws and regulations governing the obligation and expenditure of Federal resources, the Department of Transportation initiated an investigation and found that USMMA made multiple ADA violations. The violations were reported to the President, Comptroller General, House, Senate, and OMB on March 9, 2009. Responsible officials were identified and either removed, disciplined, or counseled.

GAO issued two reports[1] on the internal control environment pertaining to the use of funds at USMMA, making 48 recommendations. The Department reported that these recommendations are closed.

[1] GAO-09-635, "United States Merchant Marine Academy – Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds; Some Corrective Actions are Under Way," August 2009; and GAO-12-369, "U.S. Merchant Marine Academy – Additional Actions Needed to Establish Effective Internal Controls," July 2012.

Mr. Diaz-Balart #9

MARAD Accounting

Question: In your opinion, is the Academy ready to regain their own commitment authority?

Answer: Since we have not performed any audits of the financial controls at USMMA following the reporting of the ADA violations, we do not have a basis to conclude on USMMA's readiness to regain their commitment authority.

Mr. Diaz-Balart #10

Fiscal Year 2017 Budget Request

Question: Mr. Scovel, how would the $3.4 million difference between OIG's FY17 budget request to OMB and the President's budget request impact your ability to fully execute OIG's mission?

Answer: OIG's budget request to OMB was for $93.6 million in support of an estimated 422 career-level FTEs. The President's budget request is for $90.2 million in support of an estimated 397 career-level FTEs and 13 student and expert FTEs.

While we appreciate that the President's budget request is intended to help move us in the right direction, the 25 additional FTEs we originally requested are needed to enable us to fully execute our mission, focusing on safety across all transportation modes, while continuing to identify cost-savings opportunities and making recommendations to improve DOT program efficiency and effectiveness. Operating below OIG's requested level puts at risk our ability to provide full and effective oversight of expanding DOT programs.

The resources we've requested are necessary to enable us to provide critical audit and investigative oversight of aviation and surface safety issues and evaluate key data systems supporting the Department's oversight of hazardous materials transportation. We also plan to use these resources to strengthen our focus on administrative, management, and procurement programs with significant budget and information security impacts; maintain the technical capabilities needed to conduct increasingly complex audits and investigations; and reinforce our own IT security posture. Additionally, we have new oversight and reporting requirements associated with the recent passage of legislation such as the Fixing America's Surface Transportation (FAST) Act, the Digital Accountability and Transparency Act (DATA Act) of 2014, the Grants Oversight and New Efficiency (GONE) Act, and the Surface Transportation Board Reauthorization Act of 2015.

We have consistently demonstrated our ability to get the greatest return on investment for our work. Most recently, in fiscal year 2015 we returned $32 dollars for every dollar appropriated to our office. Additionally, we are constantly looking for opportunities to manage and reduce our operating costs. However, we face increasing personnel costs that are difficult to absorb because salaries and benefits represent such a large share of our budget (about 75%) and we have little to no control over the majority of our non-personnel costs, such as rent, utilities, DOT's Working Capital Fund, and mission-critical travel and training.

Full funding at $93.6 million would enable us to cover increasing personnel costs largely outside our control which have left us with insufficient funds to support our full allotment of career-level FTEs provided by the FY16 Appropriations Act. Operating below the $93.6 million level would put our ability to fully execute our mission at risk.

U.S. Department of Transportation - Oversight and Management
Fiscal Year 2017 Questions for the Record
Congressman John Culberson
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Culberson #1

Houston METRO Audit

Last year, you secured language in omnibus report language which required the IG to audit of the Metropolitan Transit Authority of Harris County, Texas (Houston METRO):
"Audit of Metropolitan Transit Authority of Harris County, Texas.—The Committee directs the IG to conduct an audit into the financial solvency of the Metropolitan Transit Authority of Harris County, Texas (Houston METRO). As part of this audit, the IG should conduct a stress test to determine if Houston Metro has adequate finances to pay for the construction of new rail lines, as well as the operation and maintenance of existing rail lines and the operation and maintenance of buses."

Question: The FY16 omnibus included a provision directing the IG to conduct an audit into the financial solvency of the Metropolitan Transit Authority of Harris County, Texas (Houston METRO). I am very interested in you pursuing this audit. Could you please provide an update on what you have found? Also, what is your timeline for completion of the audit?

Answer: OIG staff recently met with FTA about Houston METRO and more specifically the status of the University Link Light Rail Project. We will be meeting in the next few weeks with congressional representatives to clarify the audit objectives, scope, and timeframe for completing the audit.

U.S. Department of Transportation - Oversight and Management
Fiscal Year 2017 Questions for the Record
Ranking Member David Price
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Price #1

Hiring and Staffing

Both agencies have large numbers of retirement eligible employees. HUD has a large number of employees with more than 20 years of service. DOT has many retirement-eligible air traffic controllers, an issue we're all familiar with, as well many safety inspectors.

Question: Do anticipated retirement patterns influence the training and skills development plan at your agencies? What actions should the agencies be undertaking to plan for retirements?

Answer: Maintaining an effective and skilled workforce is critical to ensuring a safe and vibrant transportation system. This means identifying and hiring the right number of staff with the requisite skill mix; adapting hiring and training practices to account for changing missions, requirements, and workforce demographics; and implementing policies and procedures that promote employees' success and ability to carry out DOT's mission effectively. Strategic workforce planning is especially important for (1) aligning an organization's human capital program with its mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. In accordance with Federal management control standards, agencies should:

- Periodically evaluate the organizational structure and make changes as necessary in response to changing conditions,
- Have a coherent overall human capital strategy that encompasses human capital policies, programs, and practices to guide the agency, and
- Conduct succession planning to ensure continuity of needed skills and abilities.

However, DOT agencies have not always taken adequate actions to ensure a robust workforce. For example, in 2011 we found that NHTSA's Office of Defects Investigation (ODI) did not have a formal training program to help develop its current and future workforce to promote continuity of institutional knowledge. In 2015, NHTSA provided us a workforce assessment that evaluated its staffing and training needs for ODI. However, NHTSA must now fully implement the results of the workforce assessment to help inform future decisions on the resources required for this critical mission.

In addition, retirement patterns significantly influence training and development plans for FAA's air traffic controllers. FAA employs more than 13,800 air traffic controllers and is planning to hire over 6,300 more in the next 5 years to keep pace with expected retirements and attrition. Ensuring adequate staffing and training for controllers is essential to maintain the efficiency of the National Airspace System, especially at the Nation's busiest and most complex centers. In

December 2013, we reported significant weaknesses regarding the Air Traffic Control Optimum Training Solution (ATCOTS) contract used to help train controllers. While FAA is now using a new Controller Training Contract, in December 2015 we reported that significant weaknesses still exist, including the lack of clearly identified training requirements and the limited availability of certified air traffic controllers to assist with training requirements. FAA recently began clarifying its training needs, but still lacks information regarding the numbers and location of certified controllers capable of assisting with formal classroom training needed to certify new controllers. As a result, it remains unclear whether FAA will have the resources available to ensure sufficient numbers of new controllers are certified in a timely manner. Actions such as controllers voluntarily working beyond retirement eligibility age can be used to lessen training needs, but such measures may not be a reasonable long-term solution.

FAA also faces challenges regarding replacing members of its aging acquisition workforce. Forty-six percent of FAA's 1,830 strong acquisition workforce—comprised of 11 different disciplines, such as system engineers, project managers, and contracting officers—will be eligible to retire by 2020. This comes at a time in which acquisitions are increasingly more complex, and FAA's acquisition workforce needs will increase as FAA progresses with its implementation of NextGen. In addition, FAA is only beginning to implement our 2011 audit recommendation to identify contractors that should be accounted for as part of its acquisition workforce. FAA is progressing with plans to train existing employees in its acquisition workforce, but training requirements will grow as retirements increase, and FAA needs to monitor these factors to ensure resources are available to meet its growing training needs.

Mr. Price #2

Hiring and Staffing

Question: Are there hard to staff or mission-critical positions at DOT or HUD that could benefit from premium pay authority?

Answer: FAA's air traffic controllers are compensated according to an agreement between management and its air traffic controllers' union. This agreement includes the use of premium pay. In addition, FAA has the authority to use pay banding to recruit employees, including those in critical disciplines such as its acquisition workforce. We have not performed a detailed review to determine whether premium pay authority is required to fill mission-critical positions throughout the Department.

Mr. Price #3

Improper Payments in High Risk Programs

HUD's Rental Assistance Programs and DOT's FHWA and FTA grant programs have a risk for improper payments. Both of these programs are decentralized and rely on other units of government to administer and document the use of Federal funds. The success of these programs depends on the competence and honesty of state and local authorities. In fact, many of the programs that OMB has identified as high risk share this characteristic.

Question: Do your agencies employ risk-based approaches to give the riskiest grantees the most scrutiny?

Answer: As noted in our recent Top Management Challenges report to the Department, FHWA and FTA have adopted a risk-based approach to their oversight of State Departments of Transportation and transit authorities. We recently reviewed FTA's risk-based approach and found that Agency staff received insufficient guidance and oversight from FTA Headquarters for its formula-funded program, and had not consistently implemented its approach for its Emergency Relief program. For FHWA, as a result of our audit findings and MAP-21 changes, FHWA recently revised its risk-based oversight approach, which includes annually assessing individual State and program risks and identifying highway and bridge projects of national and division office interest. We have not yet audited the revised approach since it was just fully implemented during FHWA's last performance management cycle ending in May 2015. FHWA completed the last FHWA Stewardship and Oversight Agreements with States in December 2015 as part of the change. Moving forward, FHWA's challenge will be to maintain management attention on the process to ensure it is working as designed and make improvements as needed.

It is important to note that DOT's improper payment testing for fiscal year 2015 found FTA fell into the "Low Risk" category, with estimated error percentages 0.05% for its Formula Grants and Passenger Rail Investment and Improvement Act projects and 0.03% for its Emergency Relief program. However, DOT's improper payment testing for fiscal year 2015 showed FHWA to be "Susceptible to Significant Improper Payments" because its total improper payment estimate of approximately $479 million (1.08% of total FHWA payment amounts) exceeded the legislative threshold of $100 million.

Mr. Price #4

Improper Payments in High Risk Programs

Question: Are there government-wide best practices for these programs?

Answer: A working group consisting of prominent accountability community members developed a "Guide to Opportunities for Improving Grant Accountability" in 2005. This guide, which can be found at https://www.ignet.gov/sites/default/files/files/grantguide.pdf, contains a list of promising practices.

Mr. Price #5

Procurement of Complex Systems

Both DOT and HUD have had recent examples of technology procurements that didn't go as planned. Both FAA's NextGen program and HUD's New Core, Next Generation Management System and FHA modernization are examples of complex technology procurements that didn't meet best-practices and were delayed or immature when deployed.

Question: Are procurement officials getting better at writing specifications for large, complex procurements? Are they breaking large contracts into smaller contracts with a more defined scope?

Answer: Our audits show that FAA faces continuing challenges in clearly defining requirements for large, complex procurements and in breaking large contracts into smaller contracts with a more defined scope and discrete deliverables. The Office of Management and Budget has long recommended that agencies award large acquisition contracts over shorter increments using modular contracting approaches to help protect against overpaying, requirements changes, and schedule delays. Modular contracting practices break acquisition phases associated with software design and development into contractual increments, each of which produces a measurable result towards delivering the functionality for the investment. This reduces the risk of potential adverse consequences on the overall project by isolating errors and refining requirements. Also, the Federal Chief Information Officer (CIO) requires that IT programs deploy working business functionality within 18 months. However, FAA's Acquisition Management System (AMS) does not address such concepts, and FAA's large programs have been plagued by problems and uncertainties.

FAA continues to award high-dollar contracts without fully addressing and mitigating risk in the acquisition planning and contract award stages, often resulting in large cost overruns and delays in system implementation. For example, since 2010, we have reported that FAA faces significant risks in implementing the Automatic Dependent Surveillance-Broadcast (ADS-B) system and realizing benefits due to weaknesses in its contract structure and oversight. ADS-B is FAA's $1.8 billion satellite-based surveillance system for managing air traffic and is critical to the success of the Agency's Next Generation Air Transportation System (NextGen). FAA's ADS-B contract structure bundles tasks and costs, making it difficult for decisionmakers to manage the contract and track costs. Also, FAA covered the first 18 years of ADS-B's 28-year lifecycle through one contract award, rather than breaking it into more manageable segments as OMB and the Federal CIO recommend. It remains unclear whether FAA has fully mitigated past problems to ensure it can achieve ADS-B technical requirements and do so within budget.

Other major acquisitions where FAA faces these challenges include the Wide Area Augmentation System (WAAS) Program, the Standard Terminal Automation Replacement System (STARS), and the En Route Automation Modernization (ERAM) system. FAA structured these major investment systems for air traffic modernization in one "grand design" approach to deliver capabilities over many years, instead of over shorter increments. Each of these acquisitions has experienced cost increases, delays, and performance issues.

In 2016, to improve its management of major acquisitions and better meet the goals of its reforms, we recommended that FAA review and identify Federal and industry best practices and guidance from OMB and the Federal CIO that may be incorporated into AMS for acquiring major capital investments and IT systems, including the use of successive contracts that are separately priced and the use of modular concepts when planning and purchasing IT, and determine which are appropriate for incorporation into AMS. FAA concurred with our recommendation.

Mr. Price #6

Procurement of Complex Systems

Question: Have the agencies developed the project management skills required to manage complex technology projects? If not, is there a plan to develop that capacity?

Answer: FAA has begun some actions that may help it to develop the project management skills required to manage complex technology projects. For example, FAA has moved to centralize control over its program management and acquisition functions by adopting a shared services model in both areas. In 2012, FAA initiated a major reorganization of FAA and ATO, which included creating single points of accountability for contracting officers and program managers. As part of this reorganization, FAA created an Agency-wide Program Management Office (PMO) to better manage acquisitions following approval by the Joint Research Council (JRC). These actions could result in more consistent practices, sharing of best practices, and better management of complex acquisition portfolios.

Also, to help manage its acquisition management capabilities and plan for the future of its acquisition workforce, FAA now publishes an annual Acquisition Workforce Strategy. FAA's Fiscal Year 2015 Acquisition Workforce Strategy identifies current workforce needs, projected staffing needs through fiscal year 2020, competency models for its acquisition workforce, and training strategies to strengthen workforce capability. Also, as a result of one of our recommendations, FAA is implementing a procedure to identify support contractors included in its acquisition workforce that will assist FAA when planning support for its acquisitions and identifying the cost of acquisition programs.

Mr. Price #7

Procurement of Complex Systems

We've seen examples where the product delivered by a vendor was different from the product specified in the contract. This usually results in expensive changes to other parts of the system that depend on a certain capability.

Question: Do the agencies have the resources to determine that a vendor produced the capabilities specified in the contract?

Answer: Our past audits show that FAA and DOT generally do face challenges in performing adequate oversight to determine that vendors delivered the service or product specified in contracts. For example, one program where we found poor oversight is FAA's En Route Automation Modernization (ERAM) system. Our work identified a range of issues, including high contracting officer turnover, poorly organized contract files, and limited review of vendor invoices. Also, FAA contracting officials could not answer critical contract questions or provide documentation, were not properly documenting performance problems, and lacked contracting training and guidance.

We have also found that DOT faces challenges in performing contract closeout functions, which are key to effective contractor oversight. In 2015 we reported that DOT does not fully ensure its Operating Administrations comply with Federal and departmental closeout requirements. These requirements are intended to verify that goods and services were provided to the government as intended and include validating final costs and payments as well as freeing excess funds for possible use elsewhere. DOT lacks sufficient closeout guidance and has not implemented oversight procedures or performance metrics to assess whether DOT complies with the closeout requirements. As a result, the Operating Administrations we reviewed—FAA, FHWA, NHTSA, and OST—frequently did not close out contracts in a timely manner. In total, 42 of the 58 closed contracts in our sample (72 percent) were not closed out within Federal and departmental timeframes—with delays ranging from 19 to 3,019 days and averaging 1,037 days. Operating Administrations' contract files lacked evidence that contract closeout steps required by Federal procurement regulations had been completed. Also, FAA, FHWA, NHTSA, and OST were unable to locate the files for 25 contracts (21 percent of the contracts in our sample) because their contract files were not always properly maintained. The Department concurred with all five of our recommendations to help improve DOT's compliance with contract closeout requirements, which are all still open.

Mr. Price #8

Cybersecurity

Both the Department of Transportation and the Department of Housing and Urban Development have critical and sensitive information technology systems. Today, I'd like to focus on two specific areas: weak credentials and application vulnerabilities.

Question: Given that many hacking attempts rely on weak credentials, how do you ensure that your agencies are complying with best practices for password strength and complexity?

Answer: Our security audits have reported that the Department does not do enough to protect against cyber threats, such as hacking. Our 2016 report on Volpe's information technology infrastructure revealed that we were able to use common hacking procedures to gain access to Volpe's local area network. In 2013, using similar procedures, we were also able to "hack" DOT's main network. Our most recent Federal Information Security Management Act (FISMA) report shows that while the Department has made progress on some issues, it still has many cyber security weaknesses and challenges. Because of the significance of the weaknesses, DOT has reported cyber security as a material weakness in its assurance letter. For example, DOT's information security continuous monitoring program is at the lowest level of maturity. In addition, DOT practices for password strength vary. In general, DOT uses software settings to define password strength for its users. In some cases, DOT requires users to have a PIV card to use in addition to a password. However, this practice has not been adopted Department-wide.

Mr. Price #9

Cybersecurity

Question: What efforts are your offices and the agencies undertaking to mitigate the potential damage from social engineering?

Answer: Although the Department includes social engineering as part of its annual security awareness training to inform employees and contractors of the related information security risks, it cannot effectively track contractors to ensure they have taken this training. Specifically, since 2008, we have reported that DOT has not adequately tracked the number of contractors it employs and, therefore, does not know how many contractors have completed or need to complete required security training. This increases the risk that contractors will accept malicious codes through social engineering, develop poor passwords, misuse the Internet, or create other security vulnerabilities. In conjunction with tracking security training gaps, we have reported that the Department does not perform tests of the effectiveness of its security awareness training, such as through email phishing exercises. This lack of testing was apparent when an employee accessed data that allowed a virus to infect FAA networks.

Mr. Price #10

Cybersecurity

Question: When the Departments procure applications and systems from outside vendors, how do you ensure that the vendor's application is compliant with information security protocols? Are there specific information security metrics in all procurement vehicles?

Answer: Since 2014, we have reported that the Department does not have an accurate list of contractor-operated systems. Without this, it is unlikely that the Department will be able to provide direction to all contractors on information security, enforce compliance with security requirements, or reduce security risks.

Mr. Price #11

Cybersecurity

Question: Are all applications that use agency networks held to the same standards? For instance, how do you ensure that a network attached device, like a copier, isn't a vulnerability?

Answer: Our FISMA audits have revealed that the Department lacks a standardized process to track all IT hardware devices and could not provide an accurate inventory of the devices on its networks. Without this capability, it is difficult for DOT to ensure the equipment is conforming to approved configuration baselines that would enable adequate protections for all of its devices. Our recent report on Volpe's information technology infrastructure also found vulnerabilities on devices such as printers.

Mr. Price #12

Disaster Programs

As you know, the oversight of disaster related programs have proven challenging. As Appropriators, we try to strike a balance between providing flexibility to recover from a disaster and creating the conditions for waste, fraud and abuse. I think we have learned many lessons from the Hurricane Katrina and tried to incorporate those into the Hurricane Sandy supplemental.

Question: Has requiring approval of recovery plans and approvals of contract awards increased the transparency of the process and reduced fraud and abuse?

Answer: We have reviewed FTA's oversight plans for restoration, recovery, and resiliency projects funded by Hurricane Sandy funds. Most recently, we found that FTA did not adequately verify that the Port Authority Trans-Hudson's procurement practices for its Salt Mitigation Project—funded by Hurricane Sandy funds—complied with FTA and other Federal requirements. While we recommended improvements to FTA's oversight plans and implementation, it is too soon to determine whether FTA's processes have reduced fraud and abuse.

Mr. Price #13

Disaster Programs

Question: Are we providing sufficient financial resources to adequately oversee the disaster programs?

Answer: Our funding is sufficient at this time. OIG has completed several Hurricane Sandy-related audit reports, and our investigators include Hurricane Sandy projects as a focus. Our 2015 report on FTA's oversight of Hurricane Sandy funds found that the actual fund disbursements have been lower than FTA initially estimated. As of April 30, 2015, approximately $939 million of the approximately $10.088 billion allocated to FTA in 2013 had been disbursed. (By November 30, 2015, approximately $1.17 billion had been disbursed). Given this pace of disbursement, we will have a better sense, when performing future audits over the next few years, if additional oversight resources are required.

Mr. Price #14

Disaster Programs

Question: What strategies should we be looking at to reduce duplication of benefits?

Answer: We recommended in our 2015 report that FTA formalize its process for coordination with FEMA to avoid duplicative payments in providing emergency and disaster-related assistance. Based on our work, formalizing processes and strengthening controls between Federal departments that were allocated Hurricane Sandy funds would be effective strategies to help reduce the risk of duplicative payments.

U.S. Department of Transportation - Oversight and Management

Fiscal Year 2017 Questions for the Record

Congressman Mike Quigley

Subcommittee on Transportation, Housing and Urban Development, and Related Agencies

House Committee on Appropriations

Mr. Quigley #1

Air Traffic Controller Staffing Shortages

We currently have far too few controllers in our towers and radar rooms.

Chicago Tracon is a perfect example of the staffing issues we are facing nationwide. That facility is currently 30% short of the certified controllers needed and 39% of their certified controllers are eligible to retire.

In FY15, the FAA missed its air traffic controller hiring goal for the 5^{th} consecutive year. The number of fully certified air traffic controllers is currently at the lowest level in 27 years.

Question: We've obviously got a serious problem here. What can the FAA do to cut through the bureaucratic red tape that is slowing down the current hiring process?

Answer: FAA needs to closely monitor the new controller hiring process and make adjustments as necessary. FAA recently established a team to identify and mitigate problems with the new hiring process. The FAA team has developed a number of recommendations, such as improving the Agency's ability to track applicants through the hiring process. Our review of the air traffic controller hiring process is still ongoing and will be completed this summer. While the new process has been in place since late 2014, we will not know the success of the program for several years because of the length of time it takes to fully train a new controller. It can take new controllers up to 4 years to become fully certified once they leave the FAA Academy.

Mr. Quigley #2

Protecting DOT from Threats

FAA Aurora Fire
In 2014, an FAA contract employee deliberately started a fire that destroyed critical equipment at the FAA's Traffic Control Center in Aurora, Illinois. Thousands of flights were delayed or cancelled at a cost of over $350 million for the industry and flying public, and it took two weeks to get us back to normal. As a result, I'm concerned about DOT's ability to protect against insider threats.

Question: What have we learned about the FAA's vulnerabilities from this incident and what still needs to be done to ensure that this doesn't happen again?

Answer: The incident at Chicago Center taught us that FAA's facility and personnel security protocols in effect at the time of the incident were insufficient to identify, counter, or mitigate the impact of insider threats. Moreover, a much more proactive approach to National Airspace System security is needed. Our audit found that FAA's vulnerabilities included poor access controls, inadequate information sharing, and lack of training. For instance, there was no requirement to limit facility access to employees scheduled to transfer to another FAA facility, and no policy requirements to ensure that adverse personnel actions against employees or contractors were immediately reported to facility management or FAA security officials.

After the incident, FAA completed a comprehensive security review, which generated 42 recommendations designed to strengthen FAA security against both external and internal threats. The recommendations include modifications to access controls, information sharing, personnel screening policies and processes, and training enhancements. Effectively implementing these recommendations will help ensure that the incident at Aurora will not be replicated at other facilities. FAA needs to clearly articulate its resource requirements to this Committee with a corresponding action plan. We will continue to monitor FAA's efforts to bolster security at its air traffic facilities.

Mr. Quigley #3

Protecting DOT from Threats

Cybersecurity
As a nation, we need to find more innovative ways to protect against the growing threats to our cybersecurity.

Question: Where are our biggest vulnerabilities when it comes to cybersecurity and what can Congress do to help address them?

Answer: Overall, the Department has a self-reported material weakness in cybersecurity. During our FISMA audits, we found that DOT enterprise-level controls remained inadequate; system-specific controls are not satisfactory; and DOT does not sufficiently oversee the remediation or closure of Plans of Actions and Milestones (POA&Ms).[2] For example, in 2014 DOT had a backlog of over 5,600 POA&Ms, which include longstanding security vulnerabilities within DOT systems. In 2015, DOT had only resolved 1,798 (32%), leaving more than 3,820 POA&Ms unresolved. Of these, 2,023 POA&Ms do not have actual start dates, and 960 had no documented remediation costs.

[2] Per OMB Memorandum M-02-01,—A POA&M is a tool that to assist agencies in identifying, prioritizing, and monitoring progress of corrective efforts for security weaknesses found in programs and systems.

Mr. Quigley #4

Protecting DOT from Threats

Terrorism
As Ranking Member of the Emerging Threats Intelligence Subcommittee, protecting our transportation infrastructure from the terrorism is a top concern of mine.

Question: Can you provide us with an update on DOT's work to keep our infrastructure and the traveling public safe?

Answer: In 2015, and in collaboration with the Department of Homeland Security Office of Infrastructure Protection, the Transportation Safety Administration, and the U.S. Coast Guard, DOT issued the Transportation Sector Specific Plan to guide and integrate efforts to secure and strengthen the resilience of the transportation infrastructure. In November 2015, GAO issued a report titled "Critical Infrastructure Protection: Sector-Specific Agencies Need to Better Measure Cybersecurity Progress" (GAO-16-179). GAO recommended that the Secretaries of Homeland Security and Transportation direct responsible officials to develop performance metrics to provide data and determine how to overcome challenges to monitoring the transportation sector's cybersecurity progress.

Mr. Quigley #5

Railroad Performance Data

Access to the most up to date performance data helps localities make smarter infrastructure investments. In Chicago, access to freight data is especially important for making investment decisions on projects like CREATE that will help ease rail congestion in Chicago and around the country. The FAST Act added some new data requirements to that end, but more needs to be done.

Question: What's DOT doing to provide local planners with the tools and data they need to make performance-based infrastructure investments?

Answer: FRA has completed a number of actions intended to help make performance-based infrastructure investments. For example, FRA developed guidance for States to use in developing State rail plans, completed an initial regional rail plan in partnership with several southwestern States, and issued the performance metrics for intercity passenger rail service.

FRA also continues to develop additional guidance and tools for local planners, such as benefit-cost analysis guidelines for use in project proposal development.

U.S. Department of Housing and Urban Development - Oversight and Management
Fiscal Year 2017 Questions for the Record
Chairman Mario Diaz-Balart
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Diaz-Balart #1

HUD Financial Management

HUD's improper use of First-In-First-Out, or "FIFO" accounting, is one of the biggest reasons for your most recent audit disclaimer.

Question: Can you describe what needs to be done to resolve this issue and what progress HUD has made implementing your recommendations?

Answer: To fully resolve the FIFO issue, the U.S. Department of Housing and Urban Development (HUD) needs to (1) correct its accounting for grant activities and disbursements for the Office of Community Planning and Development's (CPD) formula grant programs, (2) reconcile its pre-2014 grant records to accurately reflect the source and use of funds, (3) design and implement adequate internal controls over financial reporting, and (4) complete implementation of planned grant information system modifications for all open grant years. It is It is our understanding that HUD has decided that 2014 and prior will continue to be disbursed via FIFO and 2015 and forward will be non-FIFO.

HUD's FIFO accounting for both the HOME Investment Partnerships Program and the Community Development Block Grant (CDBG) violate the matching principle of generally accepted accounting principles (GAAP) by not matching revenue (commitment of funds) with expenses (drawing funds against the commitment). It also masks the HOME program's tracking and accountability for the 5-year deadline for spending committed funds.

Before fiscal year 2002, HOME and CDBG received no-year appropriations. In fiscal year 2002, appropriations changed to term appropriations. This change affected the period of availability of funds and required HUD to account for activities and disbursements by source year. HUD did not in keeping with the Federal Financial Management Improvement Act of 1996.

HUD's HOME program departure from GAAP is compounded by noncompliant implementation of statutory requirements; specifically, HUD's use of the cumulative method of determining compliance with grant commitments to ensure that funds appear to be obligated within time limits.

To prevent this deobligation, HUD used FIFO, an automated process within its system for commitment and drawdown processing, which masks the actual grant year funds for individual commitments and does not match expenses with the corresponding commitment. FIFO is HUD's technique for both committing funds to activities and spending funds for the commitment funds. The system ignored the grantee's selection of funding grant year, the grantee's accounting entry, and the commitment documents.

Since 2009, our annual financial statement audit has reported the HOME program method of calculating compliance with fund commitment as a management control deficiency because this cumulative method resulted in an overstatement of the funds committed at the statutory deadline. In essence,

(1) HUD failed to recapture HOME grant funds that remain uncommitted, and

(2) Grantees had access to funds beyond the period in which such funds were available for use.

In July 2013, the Comptroller General ruled that HUD's HOME program did not comply with requirements related to the commitment of funds and ordered that HUD adjust grantees' accounts to comply with the statute by recapturing and reallocating funds that remain uncommitted after the statutory deadline.

Since fiscal year 2013, HUD management, despite a U.S. Government Accountability Office (GAO) appropriation law opinion on the noncompliance of the cumulative method and Office of Management and Budget (OMB) guidance on the inappropriateness of FIFO, has not embraced the need to correct the errors caused by FIFO and the cumulative method. HUD program staff has indicated that it does not believe that reconciling grant year 2014 and earlier is worth the time and expense. Further, HUD stopped collecting financial information by grant year in fiscal year 2013, which would have made reconciliation possible. Additionally, HUD is advocating a return to no-year appropriation for its formula grant programs. This change would impair HUD's ability to report full and accurate information required by the DATA Act.

Due to the magnitude and pervasiveness of the noncompliance with laws and regulations, control deficiencies, and resulting misstatements, we issued a qualified opinion on HUD's 2013 financial statements. In fiscal years 2014 and 2015, this issue was reported as a material weakness in internal controls over financial reporting and was one of several issues that led us to disclaim an opinion on HUD's financial statements.

As of September 30, 2015, HUD had made progress in its implementation of identified system modifications of non-FIFO or grant-based accounting related to grants made in and after fiscal year 2015; however, additional modifications were required to fully comply with the Federal Financial Management Improvement Act and the United States Standard General Ledger at the transaction level. Among the remaining work as of September 30, 2015, CPD needed to ensure that the Integrated Disbursement and Information System (IDIS) tied disbursements to specific commitments and that historical data at the transaction level were maintained by the system. This process included transactions to account for subgranted amounts, collections, program income, and manual disbursements.

Further, while HUD applied non-FIFO or grant-based accounting to disbursements for fiscal year 2015 and future grants, it had not applied this method to other functions, such as returns and collections. According to HUD's decision, funds from fiscal year 2014 and earlier grants will continue to be disbursed via FIFO.

Since the spring of 2015, HUD had halted work on the system modifications to IDIS due to budget shortfalls. But according to recent conversations with CPD staff, additional funds were approved during fiscal year 2016 to continue this project; therefore, work had resumed. During our present audit, we plan to determine the status of work to modify IDIS. As of March 2016, a CPD representative stated, "Work resumed on the FIFO Elimination Project in February 2016. Although we have made progress these last two months on requirements and design, there has been no software deployment to modify IDIS Online during the period October 2015 through the present. The next IDIS Online deployment for the FIFO Elimination Project is planned for July 2016." To date, a $150,000 funding gap remains; however, we were assured that the HUD Secretary's office would provide all necessary funds.

Mr. Diaz-Balart #2

HUD Financial Management

Question: This FIFO problem was first identified years ago, so why has it taken HUD so long to get to the bottom of it? Is this kind of thing especially challenging or expensive to fix?

Answer: There was a general lack of acceptance by HUD program office staff that FIFO was an improper accounting practice. Although we identified the FIFO problem in fiscal year 2009, HUD challenged our interpretation of appropriation accounting, which triggered our action to request from GAO a legal opinion and decision on this matter. Our request to GAO was made on May 17, 2011, and answered on July 17, 2013. In 2013, we reported that in OMB's role of ensuring that agency reports, rules, testimony, and proposed legislation are consistent with the President's budget and Administration policies and through its oversight and coordination of the Administration's procurement, financial management, and information and regulatory policies, OMB notified HUD to discontinue the use of FIFO. By the end of fiscal year 2013, CPD was in the early stages of developing a plan to prospectively remove FIFO from IDIS Online. CPD evaluated the impact of removing FIFO on program regulations, grantees, and staff and estimated a cost and completion timeline of early fiscal year 2015. Then, as noted above, budget shortfalls in the spring of 2015 caused a temporary work stoppage on this project. The project resumed in February 2016.

The total estimated information technology (IT) development modernization and enhancement cost for eliminating the improper use of FIFO in fiscal year 2015 and forward was more than $3.5 million.

HUD's draft FIFO elimination plan from 2013 lists the following challenges with this process:

- HUD states that the scope and cost of this effort is significant as CPD programs have used program-based (FIFO) processing since 1975. The rules and implications of the method are, therefore, fundamentally embedded throughout IDIS.
- IDIS Online commitment and disbursement functions must be revised. More than 1,200 grantees draw billions of dollars through IDIS Online annually.
- The embedded nature of FIFO in IDIS Online adds complexity, and there is no "quick fix." Rules for commitment of funds are not uniform across programs. The rules surrounding program income need to be fleshed out to ensure that they are not lost in the process-program income offset draws of committed grant funds for a budget fiscal year.
- CPD does not have funding for this system change and would need a minimum of $3 million in additional development modernization and enhancement funds to begin this work.
- The initial estimate was 12-15 months; however, CPD had a plan to implement the first two phases by September 30, 2014, to upload the fiscal year 2015 grants with a non-FIFO function. The remaining reengineering of IDIS would occur by October 1, 2015. The system would retain FIFO for prior-year funds.

- During the 12-month FIFO reengineering phase, all other IDIS key enhancements would be placed on hold due to the lack of system, financial, and staffing resources.
- The elimination of FIFO will have program impacts that may require legislative or regulatory changes or both.

Mr. Diaz-Balart #3

HUD Financial Management

Question: I wonder whether HUD has the kind of professionals it needs to tackle these big financial issues. For example, they have been without a CFO for several months now. Can you comment on what you have found in dealing with HUD's financial management team and what are the big gaps in HUD's talent pool right now?

Answer: HUD has been without a Chief Financial Officer (CFO) for the last year, after the passing of Mr. Huther in June 2015. The Deputy CFO, has been in an acting role, yet he lacks the background, technical experience, and knowledge to hold either post. Our recent financial statement audit reports show that HUD needs to develop greater institutional strength in financial accounting and reporting to better design, implement, and execute its managerial responsibilities. For the past few years, we have reported on HUD's and the Government National Mortgage Association's (Ginnie Mae) ineffective financial management governance structure and their lack of personnel with the required backgrounds and skills. Specifically, we reported that HUD's financial management structure relied on the delegation of several key financial management functions to HUD's program offices, including review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. Additionally, there is extensive focus on program implementation and execution but not necessarily on proper and accurate accounting and financial reporting. HUD employees rely heavily on contractors for this type of work and analysis, so HUD employees may not be readily prepared to address these issues on their own when they arise.

Ginnie Mae's executive management did not address the financial management governance problems cited in previous audit reports and had regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in Ginnie Mae's Office of the Chief Financial Officer; (2) ensure that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found that Ginnie Mae's entitywide governance of the models, which are used to generate accounting estimates for financial reporting, was ineffective. Ginnie Mae filled the controller and economic modeling director positions in the first quarter of fiscal year 2016. It made the selection on the vice president of accounting policy and financial reporting position, but the start date is pending because the applicant is negotiating for her relocation expenses. The two accounting supervisors responsible for the day-to-day accounting operations in the Office of Finance were still vacant as of January 2016.

It has been our experience over the years that throughout the Department and Ginnie Mae, program-related issues, concerns, and decisions often took a higher priority than financial management and the requirements for proper financial accounting. Previous audits indicated that accounting procedures were often determined by program office preference, without the guidance and oversight of the Office of the Chief Financial Officer or regard for federally mandated accounting standards.

As we have previously reported, HUD's ability to monitor and perform routine financial management activities has been hampered by both turnover and reductions in staff. Between 2009 and 2014, there was a 40 percent turnover in OCFO staff and an 11 percent reduction in full-time permanent OCFO employees. Between 2014 and 2015 there was a 15 percent turnover and a 9 percent reduction in full-time employees. The turnover and reductions have placed additional burdens on OCFO staff and limited its ability to perform its duties in a timely and efficient manner.

HUD's current financial management structure relies on delegations of several key financial management functions to HUD's program offices, including review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. However, we have found that program-related issues, concerns, and decisions often take a higher priority than financial management and the requirements for proper financial accounting. Previous audits have indicated that accounting procedures are often determined by program office preference without the guidance and oversight of OCFO and regard for accounting standards. The absence of this function has been the root cause of significant deficiencies identified in our audits and these management challenges. For example, the material weakness associated with CPD's budgetary accounting for grants, which contributed to our 2014 disclaimer of opinion, occurred within the environment of substantial delegation and deferral to program office priorities.

HUD has also made progress regarding the establishment and updating of financial management handbooks and policies and procedures. However, OCFO's significant turnover in the past 5 years, combined with the lack of a policy framework, has contributed to issues related to compliance with accounting standards and other regulations.

Ginnie Mae needs to address its financial management governance deficiencies by filling the gaps in its financial management staff; reviewing its system of internal control for identifying, analyzing, and managing risks; and developing appropriate accounting policies and procedures to properly manage a $1.6 trillion mortgage-backed securities (MBS) portfolio.

Mr. Diaz-Balart #4

Moving to Work

In 2013, your office did a broad review of the Moving to Work (MTW) program. That report revealed a number of problems with the program, including the lack of consistent performance measures and limited evaluations of MTW performance. You have done additional work on MTW agencies that has raised concerns about the program – from findings of undisclosed lobbying to a failure by some MTWs to meet housing quality standards.

Too often, the flexibility provided to MTWs has meant failures in accountability and oversight.

The FY 2016 bill adds 100 MTWs to the program, but includes an evaluation component and the expectation that HUD will be selective in expanding the program over the next seven years.

Question: Considering your prior work on MTW agencies, what measures do you believe HUD should put in place to avoid the mistakes of the past?

Answer: It's concerning that the MTW program has been a "demonstration program" since 1999. Neither of the original MTW agencies nor HUD has demonstrated that it has designed and tested innovative, locally designed strategies that use Federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. OIG has argued that expanding the program would require HUD to fully implement recommendations to add comprehensive performance measures contained in our work and a recent GAO report. Performance measures are critical to demonstrating program results. Increased scrutiny is needed not only to ensure that the program's statutory objectives are met, but to also prevent mismanagement and fraud, such as excessive use and cost of outside attorneys and insurance carriers.

Based on our prior work on MTW agencies, we believe HUD should admit only "higher performing" agencies into the program. HUD had previously deviated from its normal selection process and admitted six agencies into the program by asking them to submit expressions of interest. The six agencies included housing authorities in Atlanta, the District of Columbia, King County, New Haven, Oakland, and Philadelphia. HUD did not assess the agencies' past performance or potential risk. Prior HUD OIG audits disclosed problems at agencies admitted through this process. For example, the Philadelphia Housing Authority engaged in the prohibited practice of using Federal funds for lobbying activities and paid for outside legal services that it could not adequately support and which were used to fight oversight by OIG. Also, the District of Columbia Housing Authority did not implement effective controls for its leased housing under the program.

In our internal report (2013-PH-0004), we recommended that HUD develop programwide performance indicators based on the results from the self-reported data and ensure that the program is evaluated in accordance with the standard program agreement and monitoring polices before adding more agencies to the program. HUD agreed with the recommendations and has confirmed implementation as of January 2015. We have not verified HUD's implementation of the agreed-upon corrective action.

The current MTW agreements have just been amended and extended through 2028. HUD worked with the agencies to revise the MTW agreements but could not come to a consensus. The 2016 Consolidated Appropriations Act required HUD to extend the contracts and include a waiver of the statutory requirement to limit reserves held and allow only changes mutually agreed on between HUD and the agencies. Therefore, only the waivers and extensions were made. The Appropriations Act also required agencies to report financial data to HUD as specified by the Secretary, so that the effect of MTW policy changes can be measured. Hopefully, HUD will take this opportunity to obtain data outside the contract requirements to evaluate the program.

Mr. Diaz-Balart #5

Moving to Work

Question: What do you believe should be HUD's guiding principles as it puts an evaluation program together for these new MTWs?

Answer: We believe that HUD's guiding principles should include ensuring that agencies meet statutory requirements. Specifically, HUD should evaluate how agencies plan to (1) ensure that at least 75 percent of assisted families are very low-income families as defined in the Housing Act of 1937, (2) serve substantially the same number of families that would have been served if they had not participated in the program, and (3) maintain a mix of families comparable to those that would have been served without the program.

Mr. Diaz-Balart #6

Review of Rental Assistance Demonstration

I was pleased to see that you reviewed HUD's Rental Assistance Demonstration (RAD) program. This program, put in place in 2012, has a lot of promise to address some pressing housing refurbishment needs, but we know there is a lot of oversight needed on a program as complex as RAD. And HUD does not have a great track record implementing large, complex programs.

Your audit found that HUD did not do an adequate Front End Risk Assessment (FERA) of the RAD program. HUD failed to do this assessment until the program was a full year underway, and the risk assessment did not identify all the risks that could potentially disrupt the implementation of this program.

Question: You recommended that HUD revisit its initial risk assessment of the RAD program. Has HUD done this?

Answer: In response to our audit report, HUD agreed with our recommendation and has until June 30, 2016, to complete its risk assessment. HUD's Office of Recapitalization stated that it is on target for implementing the management decision.

Mr. Diaz-Balart #7

Review of Rental Assistance Demonstration

Your audit determined that HUD did not appropriately address the risk of RAD conversions undertaken by PHAs with management and operating problems.

Question: Has HUD made any effort to address the issue of PHAs that might not have the ability to manage RAD conversions?

Answer: In our audit report, we identified a risk that PHAs with ineffective management may have difficulty in properly managing the conversion process, negatively affecting the chances for a successful conversion. The front-end risk assessment did not discuss the risks of PHAs with management capacity and operating problems participating in the demonstration or how to reduce the risk for substandard-performing PHAs. HUD stated that the risk was low for this area but did not document its evaluation. In complying with the recommendation to reexamine and modify its front-end risk assessment, the risk will need to be identified, and actions will need to be implemented to reduce it. HUD's Office of Recapitalization stated that it is on target for implementing the management decision by June 30, 2016.

Mr. Diaz-Balart #8

Review of Rental Assistance Demonstration

Question: Do you have any concerns that HUD might be approving RAD conversions at PHAs that do not have the ability to carry out this program?

Answer: While no control can be 100 percent effective, based on the audit work performed, we generally concluded that HUD's selection process and its monitoring efforts after the awards appeared generally adequate to identify PHAs that do not have the ability to carry out the program before the project reaches conversion. Once the recommendations are addressed, the front-end risk assessment should properly address the risk and describe how HUD will address it.

U.S. Department of Housing and Urban Development - Oversight and Management
Fiscal Year 2017 Questions for the Record
Congressman John Culberson
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Culberson #1

Disaster Relief Funding

The Disaster Relief Appropriations Act, in response to Hurricane Katrina, requires grantees to spend Community Development Block Grant Disaster Recovery funding within 24 months after obligation of funds. However, Congress gave authority to OMB to grant waivers of the deadline. OMB authorized HUD to provide extensions that are "inherently long term" and when it would not be practical to spend funds within the 24-month period. Last year, HUD published two notices in the Federal Register with guidance and instructions for requesting an extension of the deadline.

Question: In my district, the local housing authority is still utilizing disaster relief funds from Hurricane Ike to build subsidized housing. It is a stretch to suggest that these new housing complexes are associated with destruction from 2008. In the most recent semi-annual report to Congress, you state that OIG reviewed two Federal Register notices related to waivers for grantees receiving CDGB-DR funding. In completing your review, do you believe that HUD has set the criteria for the waiver at a reasonable level as to exclude any projects that should have been completed within the 2-year window, as required by statute?

Answer: We had similar concerns about the timeliness of the completion of projects. In our 2013 internal report (2013-FW-0001), we recommended that HUD work with Congress and implement expenditure deadlines for future Disaster Recovery grants. HUD agreed with our recommendation, and in the Disaster Relief Appropriations Act of 2013 (Sandy Disaster), Congress established a 2-year expenditure deadline for these funds. However, in the appropriation for Hurricane Ike and other natural disasters that occurred during 2008, no deadlines were established, and the $6.5 billion in Disaster Recovery funds was to remain available until spent. As a result, $1.4 billion in the fiscal year 2008 Disaster Recovery funds remains unspent, and no mechanism is available to recapture the unused funds. Regarding the review of the two Federal Register notices, we found that these waiver notices did not address changes in the 2-year deadline. As a result, we did not comment. Further, the Federal Register notices referred to in your question applied to the Sandy appropriation only. We believe the 2-year deadline policy for Sandy grantees is working since all of the six Sandy grantees have met their goals. Future Disaster Recovery appropriations should include the 2-year deadline provision for better financial controls and the overall transparency of the Disaster Recovery program. We pushed for tighter budgetary controls in our Gulf Coast wrap-up report mentioned above (2013-FW-0001). As a result, the Sandy appropriation required a 2-year expenditure deadline but also had 4 years in which to obligate funds. In the Sandy appropriation, grantees will have until September 30, 2017, to obligate the funds and then 2 years to spend the funds. HUD also has the ability to grant waivers to Sandy grantees until September 30, 2022. As a result, the funding provided to HUD and HUD OIG for monitoring and oversight will expire before grantees have spent all of their funds.

We are concerned about the hardship this may create because as of the end of fiscal year 2015, more than 70 percent of HUD's Hurricane Sandy funding remained unspent and until the bulk of that funding is spent, our ability to conduct effective oversight is limited. This is a concern with at least two other OIGs, which have expressed similar concerns with the slow rate at which their respective agencies are using their disaster assistance funding. We urge Congress to recognize that oversight activities conducted by the various agencies and their OIGs need to occur well beyond the obligation deadline and to consider providing relief to the affected organizations to extend the date when these oversight funds will expire.

U.S. Department of Housing and Urban Development - Oversight and Management
Fiscal Year 2017 Questions for the Record
Ranking Member David Price
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Price #1

Hiring and Staffing

Both agencies have large numbers of retirement eligible employees. HUD has a large number of employees with more than 20 years of service. DOT has many retirement-eligible air traffic controllers, an issue we're all familiar with, as well many safety inspectors.

Question: Do anticipated retirement patterns influence the training and skills development plan at your agencies? What actions should the agencies be undertaking to plan for retirements?

Answer: In HUD, more than 43 percent of career permanent employees onboard as of September 30, 2014, were eligible to retire by 2019. Given this statistic, HUD will need to ensure that it has steps in place to fill the critical skills gap to ensure the continuity of business and that it fulfills its agency missions.

For many years, HUD has struggled and been challenged to effectively manage its limited staff to accomplish its primary mission. HUD continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. Several studies have been completed in recent years by the Office of Personnel Management (OPM) and GAO that point to a lack of human capital accountability and insufficient strategic management of human capital as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure, which we have been reporting for the past 3 years as part of our annual audits of HUD's financial statements.

Mr. Price #2

Hiring and Staffing

Question: Are there hard to staff or mission-critical positions at DOT or HUD that could benefit from premium pay authority?

Answer: We believe this question refers to critical pay authority, whereby "OPM may, upon the request of an agency head, and after consultation with OMB, grant authority to fix the rate of basic pay for one or more critical positions in an agency at not less than the rate that would otherwise be payable for that position, up to the rate for level I of the Executive Schedule" to retain positions that "require a very high level of expertise in a scientific, technical, professional, or administrative field and be crucial to the accomplishment of an agency's mission."

We have not conducted assessment work that directly addresses this question. However, based on observations made during recent evaluations, we believe that critical pay authority would better enable HUD to attract and retain the necessary workforce to fill mission-critical positions within the Office of the Chief Information Officer (OCIO), including Computer Incident Response Team director, security engineer, network engineer, and senior architect. These positions are especially crucial for HUD, which is at a critical juncture as it strives to modernize its infrastructure and many mission-critical legacy applications. In addition, the Inspector General has testified on several occasions that the critical pay authority is needed to enable Ginnie Mae to attract and retain critical skills within the mortgage-backed securities specialties. Ginnie Mae is competing with the Federal Housing Finance Agency, Fannie Mae, and Freddie Mac for critical skill sets. Each of these Federal organizations offers higher pay than Ginnie Mae in order to compete with the private sector.

It is noted that critical pay authority has been successfully used by the U.S. Department of Homeland Security to fill many of its key positions in IT and IT security.

Mr. Price #3

Improper Payments in High-Risk Programs

HUD's Rental Assistance Programs and DOT's FHWA and FTA grant programs have a risk for improper payments. Both of these programs are decentralized and rely on other units of government to administer and document the use of Federal funds. The success of these programs depends on the competence and honesty of state and local authorities. In fact, many of the programs that OMB has identified as high risk share this characteristic.

Question: Do your agencies employ risk-based approaches to give the riskiest grantees the most scrutiny?

Answer: No, in terms of improper payments, HUD is not using a risk-based approach effectively. While the Offices of Public and Indian Housing (PIH) and Multifamily Housing Programs (MFH) use risk-based approaches to review their housing inventories and program administrators, their risk assessments assess all types of program risk and do not necessarily target improper payments. For example, PIH's risk assessment assesses physical risk, financial soundness, operational risk, and governance risk to determine a PHA's overall risk level. While assessing these risks is important, it will not necessarily identify PHAs that that pose the greatest risk of improper payments.

PIH and MFH use the Enterprise Income Verification system to identify and target PHAs that cause improper payments; however, using this system is not efficient or effective because it contains a large number of false positives and does not track HUD's efforts to follow up on the false positives. Improving and enhancing this system is key to identifying and targeting the largest contributors of improper payments; however, HUD has struggled for many years to solve these system issues. HUD stated that these system corrections will be completed by December 2016; however, we are skeptical because HUD has extended this date several times in the past.

In addition to our concerns with HUD's risk assessment for its rental assistance programs, we have taken exception to HUD's overall improper payment risk assessment for several years. We are concerned that HUD's risk assessment is not accurately considering and weighing all factors of risk for all of HUD's programs.

Mr. Price #4

Improper Payments in High-Risk Programs

Question: Are there government-wide best practices for these programs?

Answer: We are aware of no published governmentwide best practices. The contractor that HUD uses to measure its improper payments always makes recommendations, which could be considered best practices. The contractor recommends enhancing the Enterprise Income Verification system, performing onsite reviews of rent calculations, simplifying program requirements, and creating an online community among PHAs and owners to support sharing best practices. HUD is in agreement with the contractor's recommendation to enhance the Enterprise Income Verification system; however, progress has been slow. In regard to performing onsite reviews of rent calculation, HUD is not following the contractor's recommendation. Instead, HUD decided in recent years to reduce onsite reviews of rent calculations due to other competing monitoring priorities.

Mr. Price #5

Procurement of Complex Systems

Both DOT and HUD have had recent examples of technology procurements that didn't go as planned. Both FAA's NextGen program and HUD's New Core, Next Generation Management System and FHA modernization are examples of complex technology procurements that didn't meet best-practices and were delayed or immature when deployed.

Question: Are procurement officials getting better at writing specifications for large, complex procurements? Are they breaking large contracts into smaller contracts with a more defined scope?

Answer: We have not conducted an assessment specifically pertaining to this question and, therefore, cannot provide a direct observation. However, during our fiscal year 2015 Federal Information Security Modernization Act (FISMA) assessment, we observed that the HUD procurement program had multiple challenges to overcome in contract development and oversight. As of November 2015, HUD lacked consistent oversight procedures and IT contract standard templates, specifically for IT security oversight of systems operated and maintained by contractors. In addition, HUD lacked transition plans for large and complex contract migration projects.

HUD's Office of the Chief Procurement Officer (OCPO) and Office of the Chief Information Officer (OCIO) recognize these challenges and are coordinating a joint effort to address and correct procurement deficiencies. These two offices are developing initiatives to standardize IT service contracts and implement integrated acquisition teams to ensure that the right stakeholders review and monitor IT contracts. A follow-up review would be required to specifically address this question and obtain the status of OCPO's and OCIO's planned initiatives.

Our review of Ginnie Mae systems in support of the annual audit of HUD's fiscal year 2015 financial statements found that the two contracts with companies to service its portfolio of mortgages had deficiencies. The IT requirements in the contracts and the processes used to enforce the requirements were not sufficiently defined. Our review found weaknesses in the systems, which resulted from IT security implementation that differed sharply with the contractual requirements and guidelines from OMB and the National Institute of Standards and Technology (NIST). Also, Ginnie Mae did not appear to be allocating enough of its resources for IT security. Ginnie Mae allocated less than $2 million for the security of its sensitive loan data, even though the loan value of the data it maintains was worth more than $5 billion. Ginnie Mae had only two employees during the fiscal year to monitor and enforce the IT security requirements of these contracts. These employees were also responsible for administering and monitoring security on all other contracts in relation to Federal IT system security.

Mr. Price #6

Procurement of Complex Systems

Question: Have the agencies developed the project management skills required to manage complex technology projects? If not, is there a plan to develop that capacity?

Answer: We observed that HUD lacked adequate IT project management skills and key positions required to manage complex technology projects during our IT modernization evaluation in fiscal year 2015. This weakness resulted in ad hoc project management departmentwide and a lack of HUD synchronization of project lists, scopes, and investments. Additional observations were that HUD was unable to identify underperforming IT projects and whether investments created cost-saving or operational efficiencies due to a lack of project measurements, project management resources, and skills.

Realizing this deficiency, HUD OCIO institutionalized a Project Planning and Management Life Cycle program, which supports the development of project management skills. In addition, we observed in 2015 that OCIO was developing project health assessments and had recently stood up a Project Management Office to build and acquire project management resources. Finally, since the hiring of a chief enterprise architect in late 2014, HUD's efforts in planning and designing complex technology projects have greatly improved. However, based on observations of multiple assessments, OIG found that a departmentwide contractor systems oversight program, compliant with FISMA, OBM, NIST, and Federal Acquisition Regulations, had not been established. Although OCIO and OCPO were developing initiatives to standardize IT service contracts, there were no oversight policies, procedures, and subject matter expertise to develop and maintain contract services. The result is that multiple tools, applications, and services in the Department are often implemented in a stove pipe or implemented and operated inconsistently by multiple contractors, leaving systems and the Department without correlation capabilities and with a lack of system interface awareness. HUD should make every effort to retain skilled employees and acquire additional employees skilled in project management for contract and procurement development, implementation, and oversight.

Mr. Price #7

Procurement of Complex Systems

We've seen examples where the product delivered by a vendor was different from the product specified in the contract. This usually results in expensive changes to other parts of the system that depend on a certain capability.

Question: Do the agencies have the resources to determine that a vendor produced the capabilities specified in the contract?

Answer: Although we have not conducted a specific evaluation that focuses on contract resources, HUD OIG has made several contract resource observations from multiple assessments, such as the FISMA fiscal year 2015 evaluation. The Department lacks subject matter expertise in various IT roles to properly maintain oversight of vendor capabilities and services. Specifically, it lacks resources and subject matter expertise that are needed to effectively implement new information security continuous monitoring technology across the enterprise and consolidate disparate systems. In prior years, we have reported on various concerns relating to HUD's procurement and contract management including HUD's information technology infrastructure contracts and HUD's transition to the third generation of its management and marketing contracts that are used to manage and dispose of its extensive inventory of foreclosed Single-family properties. HUD continues to be challenged by its over-reliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor work force.

HUD has developed several acquisition improvement initiatives to address the long-standing concerns in this area. We recently completed an evaluation to assess the status of these efforts and whether practices used by other agencies would enhance the quality and effectiveness of HUD acquisitions[1]. HUD had made progress in several areas, including revising and updating its procurement handbook and redesigning its web site. However, some initiatives had not been fully implemented or completed on schedule. HUD officials said that additional resources would be needed to effectively implement ongoing and planned improvement efforts. HUD had not developed a sound, cohesive strategy to address its improvement initiatives, and program offices did not all agree on resource requirements and respective responsibilities for their acquisitions staff.

Some of HUD's improvement initiatives did not follow successful program management practices or meet the U.S. Government Accountability Office's criteria for achieving an efficient, effective, and accountable acquisition function. We identified several successful practices of other Federal agencies that would improve HUD's acquisition function by using measurable objectives and goals, building partnerships, engaging stakeholders, managing change, streamlining functions, and training staff.

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[1] Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016

HUD procurement officials and the program offices did not always collaborate or communicate effectively and did not agree on the best way to address acquisition problems. HUD had also not maintained cost and performance metrics to determine where inefficiencies existed. Program offices continued to experience challenges, and some sought alternatives in shared services arrangements with Federal agencies to accomplish their acquisition objectives because the Department could not do it for them. HUD leadership needs to address these issues, or its acquisition function will remain at risk.

As stated in the previous answer, HUD should make every effort to retain skilled employees and acquire additional employees skilled in project management, IT security engineering, and network engineering for both contract and procurement development, implementation, and oversight.

Mr. Price #8

Cybersecurity

Both the Department of Transportation and the Department of Housing and Urban Development have critical and sensitive information technology systems. Today, I'd like to focus on two specific areas: weak credentials and application vulnerabilities.

Question: Given that many hacking attempts rely on weak credentials, how do you ensure that your agencies are complying with best practices for password strength and complexity?

Answer: On June 12, 2015, as part of the White House "Cyber Sprint" initiative, the Federal Chief Information Officer directed agencies to take specific actions within 30 days to tighten policies for privileged users and accelerate the use of personal identity verification (PIV) credentials for logical access authentication. HUD had made marked progress in the mandated use of PIV credentials and was meeting Federal Cyber Sprint requirements. As of the third quarter of fiscal year 2015, all privileged users and more than 80 percent of general users were using PIV credentials for authentication (computer system logon). This percentage has since increased, although we do not have current figures.

HUD had also initiated a project to modernize its identity and access program to align with the Federal Identity, Credential, and Access Management architecture and to centrally manage its identity, authentication, and primary authorization processes. As part of the project, HUD had deployed "single sign-on" capability for several HUD applications. While the agency had successfully converted several of its applications to single sign-on capability (which requires and leverages PIV credentials to authorize application access), several legacy systems remain vulnerable due to user ID and eight-character password requirements. We have not observed how HUD checks and enforces strength and complexity standards for those HUD systems that allow user ID and password.

Mr. Price #9

Cybersecurity

Question: What efforts are your offices and the agencies undertaking to mitigate the potential damage from social engineering?

Answer: We recently conducted a network penetration test to assess HUD cybersecurity defenses, to include its handling of social engineering attempts. We plan to continue conducting similar tests. During the recent test, HUD's incident response process and procedures resulted in early and regular detection of incidents during simulated social engineering (including phishing) attacks. This detection is likely due to improved security awareness training provided to HUD employees during fiscal year 2015. HUD had updated its training course content and added a separate "privacy awareness" module that focused heavily on protection of personally identifiable information, including protection from social engineering. During the fiscal year 2015 FISMA evaluation, HUD reported that it had not yet developed comprehensive "social media" policies or procedures to adequately address social engineering specific to social media tools (for example, Facebook, Twitter, Flickr), which are increasingly used as social engineering attack routes, but was in the process of developing such guidance.

However, HUD had not adequately trained all members of its Computer Incident Response Team throughout the agency and had not established metrics for measuring the incident response capability and its effectiveness. HUD OCIO recently awarded a new HUD Computer Incident Response Team contract intended to address many of the current deficiencies, such as the development of a HUD enterprisewide incident response policy, development and provision of adequate training for incident response personnel, correlation of network events, and incident response metrics. In addition, OCIO and HUD's Privacy Office have made renewed efforts to provide proper training to the HUD Breach Notification and Response Team. We plan to follow up with HUD to assess HUD's progress in implementing these initiatives.

Mr. Price #10

Cybersecurity

Question: When the Departments procure applications and systems from outside vendors, how do you ensure that the vendor's application is compliant with information security protocols? Are there specific information security metrics in all procurement vehicles?

Answer: We have conducted no specific assessment work that addresses this question. However, during our fiscal year 2015 FISMA assessment, we made certain observations regarding the HUD contractor oversight program:

- A lack of departmental guidance and processes resulted in inconsistent and ineffective contractor oversight by the agency. HUD had not established an enterprisewide contractor oversight program consistent with Federal requirements to oversee those systems hosted, operated, or maintained by contractors. HUD lacked consistent oversight procedures and standard IT contract oversight templates. While some program offices had made efforts to institute at least minimal processes, HUD failed to establish a proper oversight program.

- HUD had not issued a clear and authoritative definition of a contractor system or established adequate contractor system inventory procedures, hindering the agency's ability to identify all contractor systems and maintain an accurate system inventory.

As noted in our responses to the questions in the *Procurement of Complex Systems* section, OCIO and OCPO had undertaken initiatives to standardize IT service contracts and implement integrated acquisition teams to ensure that consistent contract requirements and adequate contract reviews were conducted by the appropriate stakeholders. OCIO also drafted new guidance regarding government technical reviewer and government technical monitor roles and responsibilities and started a regular training program in an effort to promote consistency. However, these initiatives had not been fully implemented, and some IT contracts had not been reviewed by OCIO. This shortcoming is symptomatic of the limitations we observed during the fiscal year 2015 FISMA evaluation of OCIO's ability to enforce and ensure compliance with agencywide policies and procedures. We found that key processes and programs (for example, formal directives process, compliance program, risk management program) necessary to establish and maintain agencywide OCIO authority are not in place.

Mr. Price #11

Cybersecurity

Question: Are all applications that use agency networks held to the same standards? For instance, how do you ensure that a network attached device, like a copier, isn't a vulnerability?

Answer: We have not conducted targeted assessment work that directly addresses this question. However, during our fiscal year 2015 FISMA assessment, we observed the following regarding the HUD configuration and vulnerability management programs:

- HUD had implemented standard, secure configuration settings for all network workstation and server systems. The configuration settings were properly documented, backed up, and updated as required.

- HUD had not established a consistent enterprisewide deviation handling and deviation risk mitigation process.

- A comprehensive enterprisewide patch management process had not been fully developed and documented. The process was often conducted ad hoc by the many different system contractors throughout HUD.

Various contractors and HUD organizational units continued to manage their specific HUD infrastructure segments without enterprise guidance. Additionally, HUD conducted a mix of unauthenticated and authenticated vulnerability scans but did not conduct discovery scans to discover noninventoried vulnerable or rogue devices. Unauthenticated scans do not give a complete picture of all vulnerabilities and, therefore, give an inaccurate snapshot of the vulnerability threat level. HUD receives regular U.S. Department of Homeland Security hygiene vulnerability scans but had only completed remediation of critical vulnerabilities, which generally did not assess the internal network. There was approximately a 60 percent computer workstation and laptop scan success rate in the HUD network, according to OCIO personnel, resulting in 40 percent of the network systems not being scanned properly. This problem is due to configuration issues between the operating systems and the McAfee scanning tool. As a result, HUD was not able to fully gain an enterprise vulnerability and system risk understanding or apply the standards in NIST Special Publication (SP) 800-40, Revision 3, Guide to Enterprise Patch Management Technologies (July 2003). Finally, we observed that on average, vulnerability scanning was completed by HUD on a 6-month basis. This may be insufficient, knowing that system and application security patches often are released at least monthly.

HUD did not have an adequate enterprise deviation handling or deviation risk management policy and process. Although some sample program offices and systems had a deviation handling process, it was not fully implemented or documented at the enterprise level. In accordance with FISMA and NIST guidance, baseline deviations in the environment are required to be documented, and risk assessments are to be completed both before implementation and during production use. Not all systems sampled documented baseline deviations or followed a deviation handling and risk management process. An enterprise process for managing deviation had not been documented, and all deviations were not integrated with an automated capability as recommended in NIST SP 800-128, Guide for Security-Focused Configuration Management of Information Systems (August 2011). Baseline configurations were maintained and documented; however, as noted in 2014, there was no enterprise process to address requested configuration deviations.

Mr. Price #12

Disaster Programs

As you know, the oversight of disaster related programs have proven challenging. As Appropriators, we try to strike a balance between providing flexibility to recover from a disaster and creating the conditions for waste, fraud and abuse. I think we have learned many lessons from the Hurricane Katrina and tried to incorporate those into the Hurricane Sandy supplemental.

Question: Has requiring approval of recovery plans and approvals of contract awards increased the transparency of the process and reduced fraud and abuse?

Answer: While initial approval of recovery plans provides transparency regarding what the grantee intends to achieve, we remain concerned that the ability to change actions and retroactively revise plans, in some instances without an approval requirement, results in a waste of limited funds, duplication of payment for recovery efforts, and a lack of accountability and transparency regarding the actual implementation activities. This is particularly true for State grantees that have great flexibility in revising action plans during the life of the grant.

As an example of HUD's practice to minimize or eliminate original program requirements, HUD approved the State of Louisiana's Amendment 60 on July 26, 2013, which retroactively allowed homeowners who received a grant under the Road Home Program to prove that they used those funds to either elevate or rehabilitate their home, although the grant was specifically intended for elevation only. The amendment is contrary to the elevation incentive agreement, which stated that the funds were intended to assist homeowners to only elevate their homes. If the funds were not used for this sole purpose, they were to be repaid to the State.

In August 2015, HUD again unilaterally waived the Road Home Program requirements. Specifically, HUD changed its 2013 documentation requirement for rehabilitation expenses to permit an affidavit by the homeowner and a "valuation inspection" by the State to determine the value of home repairs that were previously performed. This waiver of requirements was due to the fact that HUD was still having difficulty acquiring documentation from homeowners as proof of repair. This new approach does not consider whether recipients previously received grants or insurance funds for rehabilitation and could result in a duplication of benefits. While Congress provided considerable flexibility in the use of CDBG Disaster Recovery funds, it specifically required HUD to establish procedures that prevent duplication of benefits.

Mr. Price #13

Disaster Programs

Question: Are we providing sufficient financial resources to adequately oversee the disaster programs?

Answer: We believe that sufficient funding has been provided; however, HUD has the ability to grant waivers to Sandy grantees until September 30, 2022. As a result, the funding provided to HUD and HUD OIG for monitoring and oversight will expire before grantees have spent all of their funds. Although HUD is aware of the hardship it created for itself and HUD OIG, it continues to assert that it will award grants up to the obligation deadline date.

As of the end of fiscal year 2015, more than 70 percent of HUD's Hurricane Sandy funding remained unspent, and until the bulk of that funding is spent, our ability to conduct effective oversight is limited. This is a concern with at least two other OIGs, which have expressed similar concerns with the slow rate at which their respective agencies are using their disaster assistance funding. We urge Congress to recognize that oversight activities conducted by the various agencies and their OIGs need to occur well beyond the obligation deadline and to consider providing relief to the affected organizations to extend the date on which these oversight funds will expire.

Mr. Price #14

Disaster Programs

Question: What strategies should we be looking at to reduce duplication of benefits?

Answer: We offer the following approaches for reducing duplication of benefits:

- Better coordination between granting agencies (for example, the Small Business Administration, HUD, and the Federal Emergency Management Agency): This coordination includes more affirmative sharing of information among programs and coordination of policy decisions regarding the priority of grant funding among agencies. We have seen instances in which the unilateral policy changes of one agency undermine the prioritization applied to the program governmentwide. We have also seen agencies compete for the same awards. For example, eligible borrowers from the Small Business Administration may instead wait to receive grants from HUD at an increased cost to taxpayers.

- Congressional assistance to the Inspectors General to enhance their ability to conduct strong and effective oversight by addressing the limitations of their ability to obtain and match readily available information across Executive Branch agencies in furtherance of their efforts to combat fraud and misconduct: These limitations arise out of the Computer Matching and Privacy Protection Act (CMPPA). The information at issue currently exists within the possession of government agencies – it does not require any further collection of documents or information – and Inspectors General of the agency are already entitled to access it under the Inspector General Act. Yet CMPPA contains provisions that impact the ability of Inspectors General to efficiently obtain information from another agency and to share it with each other. The timely use of such data by Inspectors General to identify those who improperly receive Federal assistance, Federal grants or contracts, or duplicative payments will improve program efficiency; enhance recovery of improper payments; and empower Inspectors General to better address waste, fraud, and abuse in Federal programs.

- Lower thresholds for prior approval of action plan changes: We have cited several instances in reports such as those on the Road Home Program, State of Texas Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds, New York State Enhanced Buyout Program, and New York State Housing Rising Housing Recovery Program, in which a State grantee has retroactively revised its action plan to change requirements and in some cases, avoided repayment when subgrantees have not complied with previously published requirements. In addition, some of these revised action plans seek new funding to undertake the recovery efforts, which were funded under prior action plans.

- Enhanced reporting requirements: Congress may wish to enhance grantee reporting requirements to ensure that HUD has the information to monitor performance appropriately and in a timely manner so that performance issues are identified more quickly.

U.S. Department of Housing and Urban Development - Oversight and Management
Fiscal Year 2017 Questions for the Record
Congressman Mike Quigley
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
House Committee on Appropriations

Mr. Quigley #1

MTW Demonstration Program

The CHA participates in the federal program "Moving to Work" (MTW), which frees it from much of the oversight that the U.S. Department of Housing and Urban Development (HUD) usually exercises over public housing agencies.

Through the MTW program, the CHA can use federal funding for public housing, capital construction, and housing vouchers into one General Fund and spend money from that fund at its discretion. Because of the financial flexibility the MTW gives the CHA, the agency has been able to divert money intended for the issuance of housing vouchers to other uses.

Question: Has HUD-OIG investigated how financial flexibility is being used by PHAs in the Moving to Work demonstration? Is HUD-OIG aware that the Chicago Housing Authority diverted voucher funds to build up a reserve, and used part of that reserve to pay debt off early while tens of thousands of households were waiting for assistance?

Answer: We have performed preliminary background work on financial flexibility used by PHAs participating in HUD's MTW program. We are considering a review of this subject, starting with the Authority, based on the large reserves building up. The amended and restated MTW agreements allow agencies to combine Federal funds from their Housing Choice Voucher program, Public Housing Capital Fund, and Public Housing Operating Fund into a single, agencywide funding source. The agreements also authorize the use of housing assistance payments for purposes other than payments to owners, as long as these purposes are consistent with other eligible uses of these funds, including 2 CFR (Code of Federal Regulations) Part 225 (formerly known as OMB Circular A-87).

PHAs participating in the HUD's MTW program are not subject to HUD's utilization requirements. Instead, the program requires that participating agencies meet the statutory obligation of serving substantially the same number of families, determined by the baseline number of units from the month proceeding the date the MTW agreements were executed. For fiscal years 2009 through 2014, the Authority has met this statutory requirement. In addition, during our review of the Authority's exception payment standards (audit report 2015-CH-1001, issued February 24, 2015), we noted that the Authority had exhausted its waiting list for its Housing Choice Voucher program. It later reopened its waiting list and now has more than 282,000 on its waitlist lottery.

The Authority's 2013 annual plan, under the sources and uses of funds section, states that the Authority maintains reserve balances to fund anticipated future construction and other uses of capital. Through December 31, 2012, it had used more than 90 percent of its excess reserves. Reserves were spent in conjunction with the agency's capital restructuring program, partial bond defeasement, pension plan, and other programs. The 2013 annual plan reflects using all remaining excess capital as well as some portion of operating reserves. The plan also states that excess and operating reserve balances will be used in funding the Authority's planned unit acquisitions; senior, family, and scattered site housing rehabilitation; and life safety building upgrades. This plan was submitted to HUD for approval so HUD is aware of the Authority's plans.

Mr. Quigley #2

MTW Demonstration Program

Question: Is the HUD-OIG aware of the provisions in the Consolidated Appropriations Act of 2016 that expand and extend Moving to Work? If so, does HUD-OIG have a position on this?

Answer: We are aware of the provisions in the Consolidated Appropriations Act of 2016 that expand and extend MTW. We maintain our longstanding position and believe that the program should not be expanded and extended until program evaluation results warrant program expansion. Based on our prior internal audit of the MTW program (2013-PH-0004), HUD did not evaluate agencies' programs according to provisions in its standard program agreement. We recommended (in recommendation 1B) that HUD ensure that the program is evaluated in accordance with the standard program agreement and program monitoring policies. We reached a management decision with HUD. HUD agreed that in 2014 it would review each MTW agency to ensure that (1) the agency was in substantial compliance with the standard program agreement; (2) annual program plans and reports had been satisfactorily completed and submitted in a timely manner, consistent with the standard program agreement; and (3) the agency had demonstrated, through the annual program plan and report, that it used its program designation in accordance with Section 204 of the 1996 Appropriations Act. The evidence to provide closure was a report of the evaluation of each agency. HUD closed the recommendation in January 2015. While we have not verified HUD's implementation of the agreed-upon corrective action, we will do so as some point.

Further, in memorandum 2015-CH-0802, we stated that HUD could improve its oversight of the Authority's MTW exception payment standards to ensure that expenditures for related activities in the Authority's annual MTW plans and reports are reasonable and cost effective. We recommended that HUD implement adequate policies and procedures to ensure that the activities included in all agency annual plans are (1) allowable under the MTW statutory purposes, (2) described in sufficient detail to convey anticipated impacts (including financial impact), and (3) in accordance with the terms and authorizations set forth in the MTW agreements. HUD agreed to revise HUD Form 50900 (the requirements for the annual MTW plan and annual MTW report) by October 15, 2016.

WITNESSES